

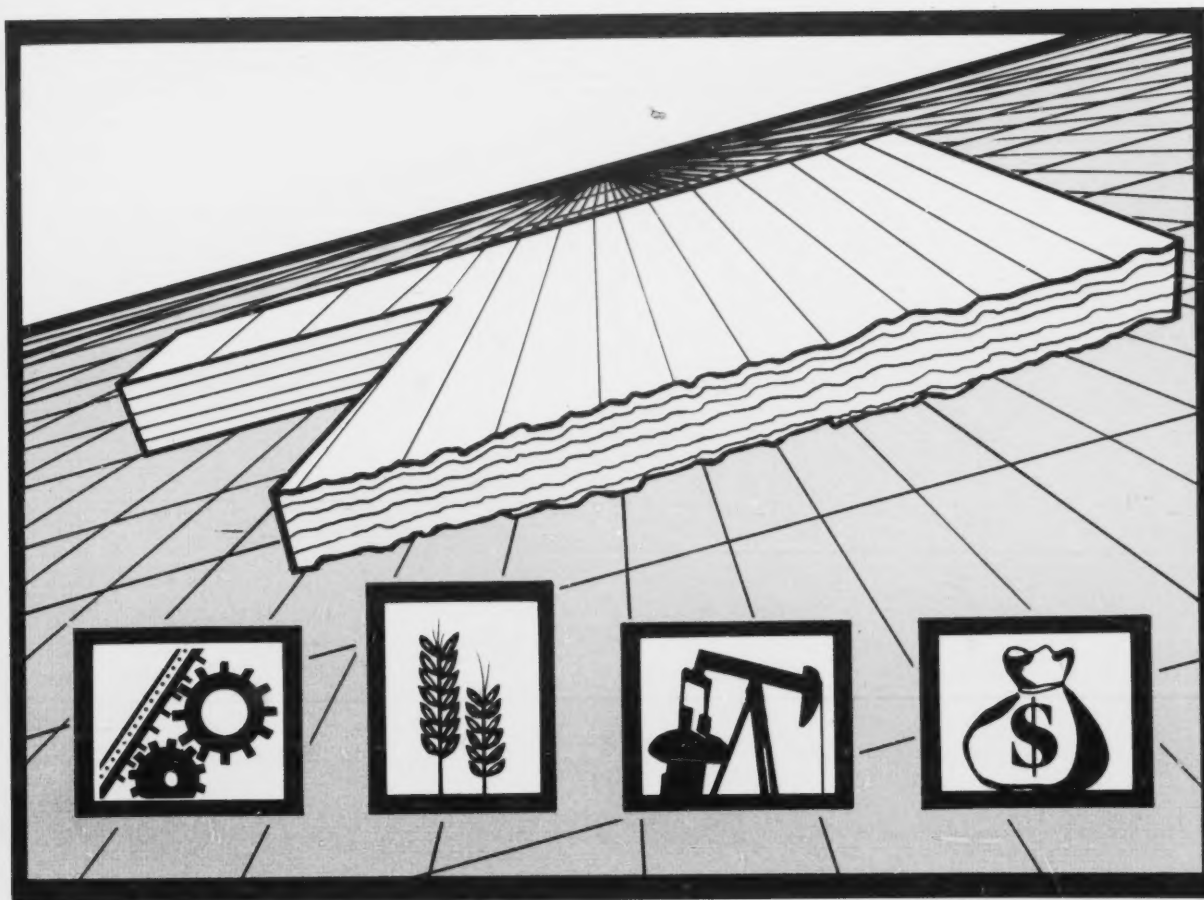
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OKLAHOMA BUSINESS BULLETIN

CENTER FOR ECONOMIC AND MANAGEMENT RESEARCH
COLLEGE OF BUSINESS ADMINISTRATION
THE UNIVERSITY OF OKLAHOMA

September 1988

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The *Oklahoma Business Bulletin* is now combined with the *Review of Regional Economics and Business*. There will be four quarterly expanded editions of the *Bulletin* which will contain both articles and the usual statistical information on Oklahoma and its major centers. The remaining eight monthly issues of the *Bulletin* will contain only the statistical summaries, although articles on timely subjects might also appear in these inter-quarterly issues. The combination of these two publications will provide a more thorough examination of economic problems prevalent in Oklahoma as well as continuing to provide economic data which has long been presented in the *Oklahoma Business Bulletin*.

This publication change at the Center has been assisted by funding provided by the Robert S. and Grayce B. Kerr Foundation Inc., for which the Center is most grateful.

We at the Center are most hopeful that the Oklahoma oriented articles will assist State leaders and citizens in their efforts to solve the economic problems now facing the State.

George W. England
Director

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The Editorial Review Board welcomes original manuscripts, studies, and research reports from persons in both the public and private sector in any area of economics and business administration. The editorial policy of the *Bulletin* promotes a free exchange of ideas and analyses. Accordingly, the contents do not necessarily reflect the views of the editor or the publisher.

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SUMMARY OF INDICATORS

Category	6 Mos. '88	6 Mos. '87	June '88	Percentage Change	
				6 Mos. '88/'87	June/May '88
Personal Income (Monthly Average)					
Unadjusted (\$000,000)	3,565	3,395	3,611	5.0	0.7
Adjusted for CPI (\$000,000)	3,052	3,020	3,060	1.1	0.3
Crude Oil Production (000 bbl)^a	50,825	51,623	10,274	-1.5	2.6
Natural Gas production (000 mcf)^a	959,641	854,705	151,148	12.2	-45.9
Industrial Power Sales (000,000 Kwh)^b	4,130	3,971	740	4.0	6.2
Total Bank Deposits (Monthly Average) (\$000,000)^c					
Demand	7,588	7,500	7,706	1.2	2.4
Savings	24,557	25,670	24,511	-4.3	0.1
Savings and Loan Associations (\$000,000)					
Assets	10,329	9,968	10,374	3.6	-8.6
Mortgage Loans Closed	308	531	66	-42.0	11.9
General Business Index	94.5	93.5	94.2	1.1	0.4

Note: Includes revisions.

^a5 months and May data. Natural gas includes casinghead gas.^bSales of larger privately owned utility companies.^cTotal deposits of all depository institutions.

SELECTED ECONOMIC INDICATORS

Category	6 Mos. '88	6 Mos. '87	June '88	Percentage Change	
				6 Mos. '88/'87	June/May '88
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value (\$000)	134,334	156,727	26,826	-14.3	25.3
Number of Units	1,813	2,372	357	-23.6	18.2
Residential—Multi Family					
Dollar Value (\$000)	2,664	12,502	190	-78.7	216.7
Number of Units	157	576	11	-72.7	450.0
Nonresidential					
Commercial (\$000)	73,203	68,862	33,423	6.3	285.6
Industrial (\$000)	20,838	5,185	3,427	301.9	-37.3
Institutional (\$000)	21,062	18,637	6,973	13.0	137.2
Nonbuilding					
Streets and Highways (\$000)	149,982	106,173	25,269	41.3	12.0
All Other Nonbuilding (\$000)	3,155	5,055	647	-37.6	-5.9
Total Construction (\$000)	405,237	373,142	96,756	8.6	56.6
EMPLOYMENT TRENDS					
Total Labor Force (000) ^a	1,526.8	1,570.6	1,527.7	-2.8	0.0
Total Employment (000)	1,425.0	1,446.7	1,434.8	-1.5	0.1
Manufacturing (000)	155.4	153.9	157.6	1.0	1.2
Mining (000)	43.8	45.4	43.4	-3.5	0.7
Government (000)	250.1	251.0	248.2	-0.4	-1.8
Contract Construction (000)	31.3	33.5	33.2	-6.6	2.5
Services (000)	233.0	229.7	239.8	1.4	1.5
Retail Trade (000)	203.9	209.2	207.3	-2.5	0.8
Unemployment Rate (%)	6.7	8.2	6.2	—	—
Average Weekly Hours					
Manufacturing (Per Worker)	41.1	41.1	41.2	0.0	0.2
Average Weekly Earnings					
Manufacturing (\$ Per Worker)	422.72	411.32	423.95	2.8	-0.1
Contract Construction (\$ Per Worker)	425.57	425.56	440.30	0.0	-1.4
Retail Trade Excluding Eating and Drinking Places (\$ Per Worker)	189.41	191.37	194.64	-1.0	1.9

Note: Includes revisions in some previous months.

^aCivilian Labor Force.

RETAIL TRADE IN METRO AREAS AND STATE
(5000)

Retail Trade	6 Mos. '88		June '88		Percentage Change		
	Adjusted	Adjusted	Adjusted	Unadjusted	6 Mos. '88/'87	Adjusted	Unadjusted
OKLAHOMA CITY MSA							
Food	1,121,354	1,109,759	187,187	197,579	1.0	0.6	-0.3
Apparel	87,028	90,750	13,359	12,196	-4.1	-2.7	-3.2
General Merchandise	372,550	347,725	61,825	62,838	7.1	-0.3	1.3
Furniture	114,163	127,005	19,746	20,861	-10.1	1.7	8.8
Lumber	88,678	84,125	15,910	18,892	5.4	1.9	3.4
Auto Dealers	876,620	736,639	194,687	200,267	19.0	43.2	23.6
Service Stations	102,306	101,459	17,291	18,263	0.8	-1.2	3.7
All Other	381,129	354,597	61,059	66,461	7.5	0.1	-0.2
Total	3,143,828	2,952,059	571,064	597,357	6.5	11.7	7.3
TULSA MSA							
Food	655,316	661,198	111,492	117,880	-0.9	2.8	3.6
Apparel	81,468	83,104	11,865	11,035	-2.0	-2.1	-1.1
General Merchandise	327,108	283,848	54,009	54,579	15.2	1.3	1.4
Furniture	77,468	69,509	13,291	12,926	11.5	-0.0	4.7
Lumber	66,077	70,115	11,457	13,274	-5.8	-2.0	1.0
Auto Dealers	510,053	428,611	113,275	116,524	19.0	43.2	23.6
Service Stations	84,052	83,349	14,207	15,005	0.8	-1.2	3.7
All Other	76,206	81,774	13,701	14,551	-6.8	12.1	3.2
Total	1,877,748	1,761,508	343,297	355,774	6.6	12.7	8.8
ENID MSA							
Food	54,540	56,199	9,497	9,778	-3.0	19.0	16.5
Apparel	8,054	9,078	1,338	1,246	-11.3	1.6	-5.5
General Merchandise	25,165	23,778	4,121	4,018	5.8	1.7	-5.3
Furniture	6,399	5,880	1,309	1,257	8.8	28.0	13.0
Lumber	7,840	7,678	1,332	1,458	2.1	-11.7	-21.9
Auto Dealers	50,173	42,159	11,143	11,462	19.0	43.2	23.6
Service Stations	7,540	7,480	1,274	1,346	0.8	-1.2	3.7
All Other	17,253	17,670	2,738	3,036	-2.4	-14.8	-8.3
Total	176,964	169,922	32,752	33,601	4.1	16.3	9.0
LAWTON MSA							
Food	92,777	94,629	15,096	15,943	-2.0	1.7	-1.6
Apparel	10,772	11,079	1,753	1,744	-2.8	-1.7	0.2
General Merchandise	73,568	67,944	11,624	11,778	8.3	-2.0	-6.0
Furniture	13,967	13,388	2,228	2,145	4.3	-4.3	-5.1
Lumber	8,974	9,712	1,571	1,691	-7.6	-0.5	-7.0
Auto Dealers	66,861	56,187	14,848	15,274	19.0	43.2	23.6
Service Stations	5,149	5,106	870	919	0.8	-1.1	3.7
All Other	18,960	20,940	2,754	3,934	-9.5	-15.3	0.4
Total	291,028	278,985	50,744	53,428	4.3	8.2	3.3
MUSKOGEE AREA							
Food	63,186	67,135	10,276	10,950	-5.9	-0.4	-0.2
Apparel	10,289	9,648	1,783	1,681	6.6	-2.4	-4.9
General Merchandise	23,426	19,376	3,916	3,750	20.9	-0.3	-4.0
Furniture	5,894	6,380	970	1,006	-7.6	4.0	7.0
Lumber	2,238	2,676	372	442	-16.4	-0.3	8.9
Auto Dealers	42,179	35,450	9,365	9,634	19.0	43.2	23.6
Service Stations	6,589	6,549	1,113	1,176	0.6	-1.2	3.7
All Other	17,879	17,805	2,610	3,306	0.4	-2.8	9.8
Total	171,680	165,019	30,405	31,945	4.0	9.7	6.7
STATE*							
Durable Goods	3,108,413	2,733,037	642,797	670,158	13.7	30.6	17.7
Auto Dealers	2,190,207	1,840,720	486,432	500,364	19.0	43.2	23.6
Accessory Dealers	165,462	163,122	27,574	31,026	1.4	2.4	4.9
Total Automotive	2,355,669	2,003,842	514,006	531,390	17.6	40.2	22.3
Furniture	171,180	164,731	28,029	28,222	3.9	3.1	2.8
Household Appliances	118,544	111,313	18,281	19,338	6.5	-1.9	5.1
Total Furniture and Appliances	289,724	276,044	46,310	47,560	5.0	1.0	3.8
Lumber and Building Materials	276,091	280,828	49,398	56,724	-1.7	-1.0	0.2
Hardware Stores	33,733	31,285	5,577	6,467	7.8	-0.3	0.6
Total Lumber, Building Materials & Hardware	309,824	312,113	54,975	63,191	-0.7	-0.9	0.2
Nondurable Goods	5,277,640	5,524,643	877,541	907,604	-4.5	-1.0	-3.2
Apparel	303,136	311,773	46,911	43,327	-2.8	-2.6	-5.1
Drug Stores	247,784	271,144	42,205	41,492	-8.6	3.7	0.6
Eating and Drinking Places	930,250	945,020	149,909	160,701	-1.6	-4.5	-7.3
Food Group	2,111,666	2,321,598	349,043	372,801	-9.0	-2.5	-2.7
Service Stations	335,928	333,176	56,777	59,970	0.8	-1.2	3.7
General Merchandise Group	983,128	945,734	172,683	165,409	4.0	2.8	-0.8
Total Retail Trade	8,386,053	8,257,680	1,520,338	1,577,762	1.6	10.3	4.7

*Total includes data for categories not shown in the table.

RETAIL TRADE IN SELECTED CITIES (\$000)

Retail Trade	Percentage Change						
	6 Mos. '88	6 Mos. '87	June '88		6 Mos. '88/'87	June/May '88	
	Adjusted	Adjusted	Adjusted	Unadjusted	Adjusted	Adjusted	Unadjusted
Ada	79,462	78,524	14,215	15,152	1.2	9.6	9.3
Altus	71,594	69,328	13,029	13,698	3.3	19.0	16.1
Alva	22,133	21,091	3,972	4,333	4.9	8.5	9.0
Anadarko	27,247	26,121	4,993	5,464	4.3	3.4	3.8
Ardmore	112,630	105,426	20,090	21,083	6.8	7.8	5.7
Bartlesville	113,290	109,887	21,071	21,537	3.1	13.5	10.6
Blackwell	20,203	16,997	3,613	3,716	18.9	26.1	17.2
Broken Arrow	111,523	100,506	20,905	21,957	11.0	15.8	7.5
Chickasha	54,115	50,492	10,310	10,524	7.2	17.1	8.0
Clinton	37,680	34,095	7,306	7,689	10.5	25.8	20.4
Cushing	31,795	30,134	5,652	6,394	5.5	4.5	8.2
Del City	62,634	65,365	11,168	12,460	-4.2	7.6	4.3
Duncan	88,482	74,443	17,579	17,702	18.9	16.5	4.6
Durant	62,093	58,855	11,072	11,433	5.5	10.1	8.3
Edmond	142,183	121,724	24,989	25,941	16.8	6.7	3.5
Elk City	43,988	40,171	8,450	8,668	9.5	22.5	14.8
Ei Reno	44,505	41,928	8,512	8,841	6.1	17.3	9.0
Guthrie	30,317	28,437	5,419	5,822	6.6	9.1	7.0
Guymon	25,720	25,210	4,320	4,578	2.0	11.1	10.7
Henryetta	28,068	25,841	4,916	5,385	8.6	2.7	2.4
Hobart	13,382	12,876	2,563	2,759	3.9	33.5	28.1
Holdenville	15,743	14,993	2,991	3,067	5.0	16.1	8.4
Hugo	16,589	15,236	3,108	3,120	8.9	14.7	6.2
Idabel	21,422	21,345	3,842	4,045	0.4	7.3	4.9
Lawton	277,021	265,376	47,853	50,782	4.4	6.0	3.2
McAlester	59,631	54,843	10,734	11,009	8.7	14.3	6.9
Miami	66,129	62,978	12,187	12,419	5.0	16.2	10.1
Midwest City	205,017	191,937	35,850	36,534	6.8	2.9	-2.1
Moore	80,225	76,649	12,884	13,644	4.7	2.7	4.9
Muskogee	164,375	156,241	28,098	31,144	5.2	6.0	7.9
Norman	358,293	324,447	69,156	70,128	10.4	18.9	10.4
Oklahoma City	1,574,205	1,511,214	290,423	304,880	4.2	12.0	9.4
Okmulgee	30,603	29,680	5,677	5,952	3.1	14.9	10.2
Pauls Valley	24,496	21,410	4,347	4,564	14.4	3.3	4.8
Pawhuska	9,694	9,537	1,621	1,697	1.6	1.6	-2.0
Ponca City	96,818	86,158	17,491	18,392	12.4	18.4	15.0
Poteau	26,991	24,582	5,273	5,388	9.8	17.4	10.0
Sand Springs	48,788	46,784	8,535	9,053	4.3	5.5	2.3
Sapulpa	73,458	69,361	13,492	14,217	5.9	10.8	7.2
Seminole	34,095	32,751	6,150	6,453	4.1	9.6	8.1
Shawnee	154,562	134,605	26,784	27,275	14.8	17.1	7.7
Stillwater	144,180	133,366	24,154	24,221	8.1	5.3	2.6
Tahlequah	44,322	43,818	8,012	8,151	1.2	13.9	5.2
Tulsa	1,426,644	1,334,389	259,275	266,232	6.9	11.2	8.8
Watonga	9,844	9,957	1,705	1,866	-1.1	2.3	5.0
Weatherford	32,021	29,686	5,940	6,092	7.9	18.4	22.4
Wewoka	6,484	6,489	1,226	1,302	-0.1	12.0	7.2
Woodward	66,083	61,001	12,257	12,761	8.3	18.7	14.7
Total Selected Cities	6,290,777	5,906,284	1,143,209	1,189,524	6.5	11.6	8.2

Sources for all tables: Local utilities companies; 10th Federal Reserve District Member Banks; Federal Home Loan Bank of Topeka; Oklahoma Employment Security Commission; United States Department of Commerce, Construction Statistics Division; Oklahoma Department of Transportation, *Progressive Report of the Transportation Director*; Center for Economic and Management Research, College of Business Administration, The University of Oklahoma. The data for all tables were compiled by Marjorie E. Earley, Statistician for CEMR and Brian Hickey, Research Assistant.

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This institution in compliance with Title VI and VII of the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, and other Federal laws and regulations does not discriminate on the basis of race, color, or national origin, sex, age, religion, handicap, or status as a veteran in any of its policies, practices or procedures. This includes but is not limited to admissions, employment, financial aid, and educational services.

ENID AND LAWTON MSAs

Category	6 Mos. '88	6 Mos. '87	June '88	Percentage Change	
				6 Mos. '88/'87	June/May '88
ENID MSA					
Employment (Number)					
Labor Force	29,788	30,621	29,875	-2.7	0.8
Total Employment	28,100	28,171	28,425	-0.3	-2.2
Unemployment Rate (%)	5.7	8.0	4.9	—	—
Industrial Power Sales (000 Kwh)	232,936	223,396	40,384	4.3	-5.8
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value (\$000)	355	553	0	-35.9	—
Number of Units	4	7	0	-42.9	—
Residential—Multi Family					
Dollar Value (\$000)	0	0	0	0.0	0.0
Number of Units	0	0	0	0.0	0.0
Nonresidential					
Commercial (\$000)	337	383	34	-12.1	-60.4
Industrial (\$000)	0	1,194	0	—	0.0
Institutional (\$000)	300	0	0	—	0.0
Nonbuilding					
Streets and Highways (\$000)	1,697	660	0	157.2	—
All Other Nonbuilding (\$000)	121	239	0	-49.5	-99.5
Total Construction (\$000)	2,810	3,030	34	-7.3	-95.2
LAWTON MSA					
Employment (Number)					
Labor Force	49,767	49,908	50,275	-0.3	0.2
Total Employment	47,062	47,358	47,675	-0.6	0.3
Unemployment Rate (%)	5.4	5.1	5.2	—	—
Industrial Power Sales (000 Kwh)	94,954	92,612	16,963	2.5	3.1
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value (\$000)	7,973	11,160	835	-28.6	-14.6
Number of Units	104	174	12	-40.2	-7.7
Residential—Multi Family					
Dollar Value (\$000)	180	400	0	-55.0	0.0
Number of Units	6	16	0	-62.5	0.0
Nonresidential					
Commercial (\$000)	2,733	1,623	1,817	68.4	431.6
Industrial (\$000)	830	20	790	E	—
Institutional (\$000)	1,300	0	0	—	0.0
Nonbuilding					
Streets and Highways (\$000)	1,848	406	0	354.7	0.0
All Other Nonbuilding (\$000)	0	0	0	0.0	0.0
Total Construction (\$000)	14,864	13,610	3,442	9.2	161.0

Note: Includes revisions.

E = exceeds 600 percent.

MUSKOGEE MA

Category	6 Mos. '88	6 Mos. '87	June '88	Percentage Change	
				6 Mos. '88/'87	June/May '88
Employment (Number)					
Labor Force	31,846	33,171	31,775	-4.0	0.2
Total Employment	28,958	30,175	29,100	-4.0	0.4
Unemployment Rate (%)	9.1	9.1	8.4	—	—
Industrial Power Sales (000 Kwh)	88,409	100,816	17,946	-12.3	4.1
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value (\$000)	216	885	0	-75.6	0.0
Number of Units	2	9	0	-77.8	0.0
Residential—Multi Family					
Dollar Value (\$000)	0	75	0	—	0.0
Number of Units	0	2	0	—	0.0
Nonresidential					
Commercial (\$000)	400	6,645	0	-94.0	0.0
Industrial (\$000)	0	20	0	—	0.0
Institutional (\$000)	0	0	0	0.0	0.0
Nonbuilding					
Streets and Highways (\$000)	582	454	0	28.0	—
All Other Nonbuilding (\$000)	5	0	0	—	0.0
Total Construction (\$000)	1,201	8,079	0	-85.1	—

Note: Includes revisions.

TULSA MSA

Category	6 Mos. '88	6 Mos. '87	June '88	Percentage Change	
				6 Mos. '88/'87	June/May '88
Employment (Number)					
Labor Force	339,767	350,900	342,500	-3.2	0.9
Total Employment	314,467	319,100	319,000	-1.5	1.0
Manufacturing	47,650	47,117	48,300	1.1	0.8
Mining	14,950	15,130	15,000	-1.2	2.0
Government	35,900	36,217	35,400	-0.9	-1.7
Wholesale and Retail Trade	69,200	69,700	69,700	-0.7	0.0
Unemployment Rate (%)	7.4	9.1	6.9	—	—
Average Weekly Earnings					
Manufacturing (\$ Per Worker)	446.61	427.54	438.07	4.5	-1.1
Industrial Power Sales (000 Kwh)	1,069,259	1,012,171	156,572	5.6	11.9
Mortgage Loans Closed (\$000,000)^a	83.3	131.1	22.0	-36.5	17.6
Bank Deposits (\$000,000)^b					
Demand Deposits	905	860	981	5.2	11.2
Time and Savings Deposits	2,162	2,350	2,142	-8.0	1.1
Air Transportation					
Passengers Enplaning (Number)	661,873	691,432	128,082	-4.3	6.4
Passengers Deplaning (Number)	664,224	699,498	127,437	-5.0	7.0
Freight (Tons)	10,444	7,091	1,908	47.3	10.6
Water Transportation					
Tulsa Port of Catoosa					
Tons In	* 286,682	268,875	22,281	6.6	-61.9
Tons Out	596,920	673,744	98,243	-11.4	67.7
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value (\$000)	55,709	65,582	10,691	-15.1	4.6
Number of Units	719	938	135	-23.3	0.7
Residential—Multi Family					
Dollar Value (\$000)	1,298	11,000	0	-88.2	—
Number of Units	56	512	0	-89.1	—
Nonresidential					
Commercial (\$000)	32,231	12,294	21,893	162.2	E
Industrial (\$000)	11,405	1,970	1,846	478.9	-62.5
Institutional (\$000)	7,658	9,703	6,109	-21.1	E
Nonbuilding					
Streets and Highways (\$000)	20,437	16,577	5,483	23.3	E
All Other Nonbuilding (\$000)	2,255	2,426	549	-7.0	8.4
Total Construction	130,993	119,551	46,571	9.6	146.7
General Business Index	87.2	87.5	89.0	-0.4	1.4

Note: Includes revisions.

^aBy Savings and Loan Associations, 5 Months and May data.^bDeposits of large commercial banks (accounted for 50 percent of all commercial bank deposits as of December 31, 1987).

E = Exceeds 600 percent.

OKLAHOMA CITY MSA

Category	6 Mos. '88	6 Mos. '87	June '88	Percentage Change	
				6 Mos. '88/'87	June/May '88
Employment (Number)					
Labor Force	498,550	510,717	502,300	-2.4	0.5
Total Employment	471,300	477,483	477,700	-1.3	0.7
Manufacturing	47,000	47,200	47,400	-0.4	0.6
Mining	11,000	11,400	11,000	-3.5	0.0
Government	96,000	97,200	94,600	-1.2	-2.5
Wholesale and Retail Trade	98,600	100,400	99,400	-1.8	-0.3
Unemployment Rate (%)	5.5	6.5	4.9	—	—
Average Weekly Earnings					
Manufacturing (\$ Per Worker)	473.48	448.64	482.69	5.5	0.8
Industrial Power Sales (000 Kwh)	581,170	583,922	106,163	-0.5	8.7
Mortgage Loans Closed (\$000,000) ^a	47.6	110.6	8.8	-57.0	-8.3
Bank Deposits (\$000,000)^b					
Demand Deposits	808	919	859	-12.1	9.6
Time and Savings Deposits	1,119	1,807	1,213	-38.1	9.1
Air Transportation					
Passengers Enplaning (Number)	712,446	739,568	136,853	-3.7	5.0
Passengers Deplaning (Number)	718,198	748,099	137,233	-4.0	4.6
Freight Enplaned (Tons)	3,297	2,927	602	12.6	-9.9
Freight Deplaned (Tons)	4,921	4,775	739	3.1	-23.8
PERMIT-AUTHORIZED CONSTRUCTION					
Residential—Single Family					
Dollar Value (\$000)	60,067	67,689	14,115	-11.3	75.5
Number of Units	845	1,103	190	-23.4	52.0
Residential—Multi Family					
Dollar Value (\$000)	205	915	80	-77.6	—
Number of Units	13	44	5	-70.5	—
Nonresidential					
Commercial (\$000)	31,627	40,135	8,852	-21.2	69.2
Industrial (\$000)	4,400	1,637	791	168.8	E
Institutional (\$000)	9,261	4,078	499	127.1	-7.38
Nonbuilding					
Streets and Highways (\$000)	39,487	29,792	3,569	32.5	452.5
All Other Nonbuilding (\$000)	601	2,181	27	-72.4	-73.5
Total Construction (\$000)	144,747	146,427	27,932	-1.1	75.0
General Business Index	91.4	87.5	94.1	4.6	2.2

Note: Includes revisions.

^aBy Savings and Loan Associations, 5 months and May data.^bDeposits of large commercial banks (accounted for 36 percent of all commercial bank deposits as of December 31, 1987).

E = Exceeds 600 percent.

A Note on Adjusted and Unadjusted Retail Sales

Traditionally, the *Oklahoma Business Bulletin* has reported retail sales on a monthly and year to date basis. These monthly data include reports of retail sales volumes for the state as well as the sub-state areas and cities. For the past twenty years, the state and metropolitan area year-to-date data have been reported in the form of "seasonally adjusted" — or more commonly "adjusted" — data while monthly data for all areas (i.e. state, sub-state and cities) have been reported both in the "adjusted" and "unadjusted form" (which is actual sales volumes).

The purpose of seasonally adjusting the data is to eliminate the effects of such variables as length of months, holidays, time periods such as Easter, Mothers' Day and Christmas in which retail buying is particularly large and months during which certain products are normally promoted heavily by special sales. For example, summer months are generally marked by sharp increases in the sales of gasoline due to vacation travel. Also, early fall months are those in which automobile sales rise significantly as dealers reduce their current year inventory through large discounts as well as introduce new models. The elimination of the effects of these and other seasonal variables produces a retail sales level which enables the analyst to determine whether or not sales during the month behaved normally or whether the monthly sales effort varied from the expected monthly pattern. As an example, if actual (or unadjusted) sales of General Merchandise Stores rose 20 percent in December but, after seasonal adjustment declined by five percent, this would indicate that these December sales failed to meet seasonal expectations by about five percent. Conversely, if "adjusted" sales showed no gain or loss, this would indicate that December sales exactly met seasonal expectations. An increase in "adjusted" sales, on the other hand, would indicate a better than expected December sales effort.

For those business operators and managers who prefer to measure actual sales against previous months' sales, the *Bulletin* reports "unadjusted" sales each month along with the relative changes between sales during the recent month and those of the previous month. Year to date sales are reported only in their "adjusted" form since this aggregated "adjusted" total varies only slightly from the "unadjusted" total.

An additional advantage of providing seasonally adjusted data is the fact that both CEMR and the U.S. Department of Commerce use the X-11 program to make seasonal adjustments to retail sales data. This compatibility in adjustment procedures enables economists to compare changes in state retailing data to those for the nation as a whole.

Business Highlights

NEIL J. DIKEMAN, JR.

OKLAHOMA'S ECONOMY continued to show improvement during the first half of the year in a number of sectors. Possibly the best news thus far this year is the fact that for the first time since 1984, real personal income — that is personal income after adjustment for inflation — has shown an increase of as much as one percent over similar figures for this period last year. The recent gain in personal income came about as a result of monthly increases throughout the six month period which raised the unadjusted income level five percent above that of the same period last year while the level of inflation was increasing at a rate of about four percent.

The year-to-date increase in personal income was paralleled by gains in several other important sectors of Oklahoma's economic structure. Among the more important of these was the three percent rise in retail sales over year ago totals which was due primarily to a 4.7 percent increase in June sales at a time when a sharp decrease was expected. After adjustment for normal seasonal variations, the increase in June amounted to 10.3 percent which off-set the small adjusted increases experienced earlier in the year and raised the seasonally

adjusted total for the year, 1.6 percent ahead of the same period last year. The driving force behind this overall six month gain was the 13.7 percent rise in durable goods sales. However, the 4.5 percent decline in non-durable sales during the first half of the year off-set most of this increase.

Among the durable merchandise lines, automobile and accessory sales during June continued the strength shown throughout the year and as a result, sales for the first half of the year exceeded year ago levels by nearly 18 percent. Also, furniture and appliance sales have experienced a relatively good year and are five percent higher than at this time in 1987. Only lumber and building materials, among the durable goods, are lagging behind year ago levels but this decline is less than two percent. Taken as a whole, the durable goods portion of retail markets appears to be healthy and should provide the strength necessary to keep total retail sales ahead of 1987 totals for the remainder of the year.

Non-durable goods sales, on the other hand, remain somewhat erratic and thus are of some concern. Sales of all non-durable lines except drug stores and service stations declined during June. While some decreases

were expected in June due to such seasonal factors as a shorter work month and out-of-state vacation expenditures, most of these sales losses were greater than normal thereby causing seasonally adjusted sales of soft goods during the month to be somewhat lower than expected. This situation, in turn, increased the rate of decline in sales of non-durable goods from 1987 levels to the extent that only sales of service station and the general merchandise group exceeded the first half totals of last year. At the current rate of retailing activity, it is very possible that total retail sales by year's end could exceed 1987 by as much as four to five percent primarily due to expected increases in durable goods sales.

Total construction activity during June increased significantly for the second successive month to bring the total for the year to date 8.6 percent above 1987 levels. This latest monthly increase was the result of gains in all types of construction except industrial and other non-building construction activity. The June increases in both single and multi family construction activity were the first since March but, despite their relative significance, were not sufficient to raise the volume of activity in these types of construction

to near the 1987 level. Conversely, the June gains in commercial, institutional and street and highway building contributed heavily to maintaining their first half totals at levels which are well above those of last year. The June decline of 37.3 percent in industrial building was not totally unexpected due to the extremely sharp increases experienced in April and May. However, even in the face of this drop, the dollar volume of industrial building during the first half of this year remained more than four times as large as the total for the same period last year. Finally, the near six percent decline in all other non-building construction activity reversed the May increase and left the total dollar volume of activity in this type of construction 37.6 percent behind the total for the first half of 1987. The outlook for construction activity for the remainder of the year is for some seasonal slow downs during the latter portion of the third quarter and all of the fourth quarter so that the total for the year should be about two percent ahead of 1987.

The number of nonagricultural wage and salary workers in Oklahoma turned up slightly in June to a level of 1,434,800 persons which was an increase of nearly four thousand jobs over the May total. This increase reversed the decreases of the two previous months and raised the level for the month to near that of this past April. The overall increase was due to gains in all major employment sectors except government where employment was off the May total by nearly two percent. The encouraging note in this June rise was the fact that the number of jobs in the three high paying industries—manufacturing, mining and construction—each experienced rather significant increases which contributed 3,300 of the 4,000 new hirings during the month.

The June increase, as encouraging as it appears, was not sufficient to boost total employment for the first half of the year up to the level for the same period of 1987 although it did narrow the gap between the two periods to 1.5 percent. The June

increases noted in the individual industrial sectors did result in year-to-date gains over year ago totals in manufacturing, mining and services employment but monthly average employment in contract construction, government and retail trade thus far this year remain somewhat below levels of the same period last year.

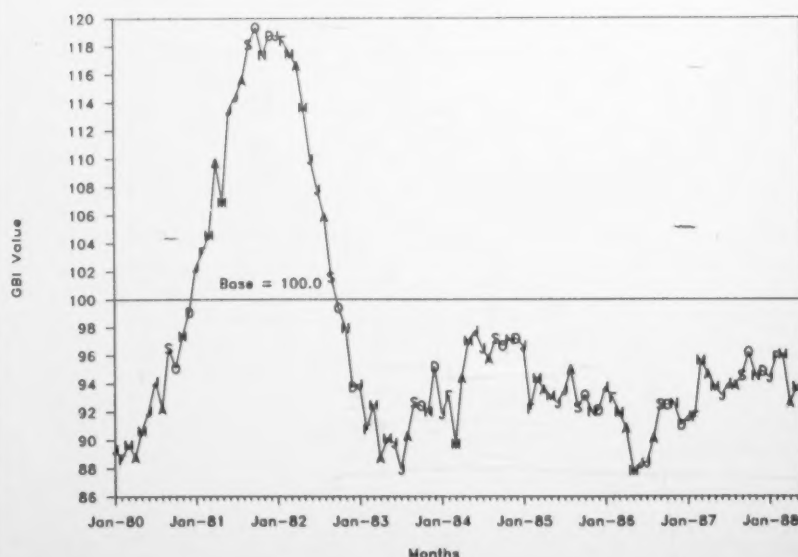
Other indicators which are showing encouraging signs of growth for the first half of the year are natural gas production which, despite a 46 percent drop in June, posted a gain of 12.2 percent for over the total for the same period last year and assets of thrift institutions which are averaging gains of 3.6 percent over last year's average. These gains were, however, offset by lagging crude oil production

— 1.5 percent below the 1987 volume of production — and total deposits in all financial institutions which have fallen 3.1 percent below average monthly deposits for the first half of 1987.

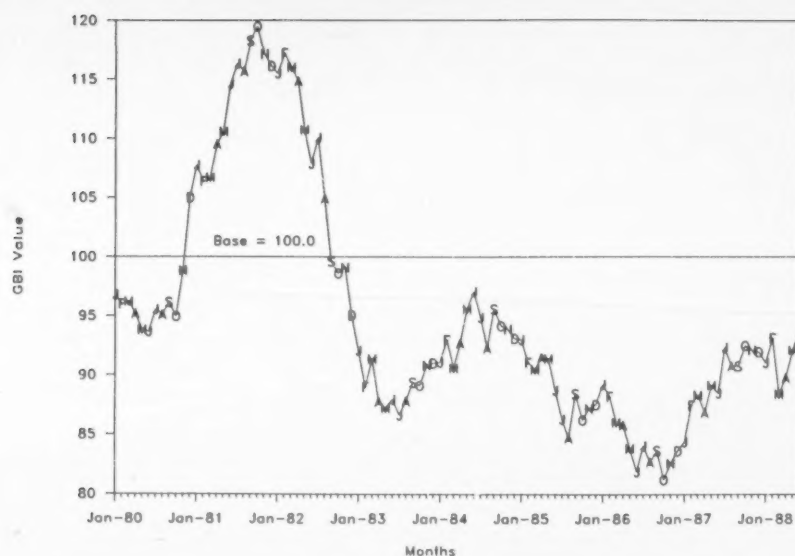
As a result of the various changes noted in the economic indicators for the state, the General Business Index rose for the third consecutive month in June. This latest increase raised the average for the year-to-date 1.1 percent ahead of the average for the same period last year.

Neil J. Dikeman, Jr. is Associate Director for the Center for Economic and Management Research.

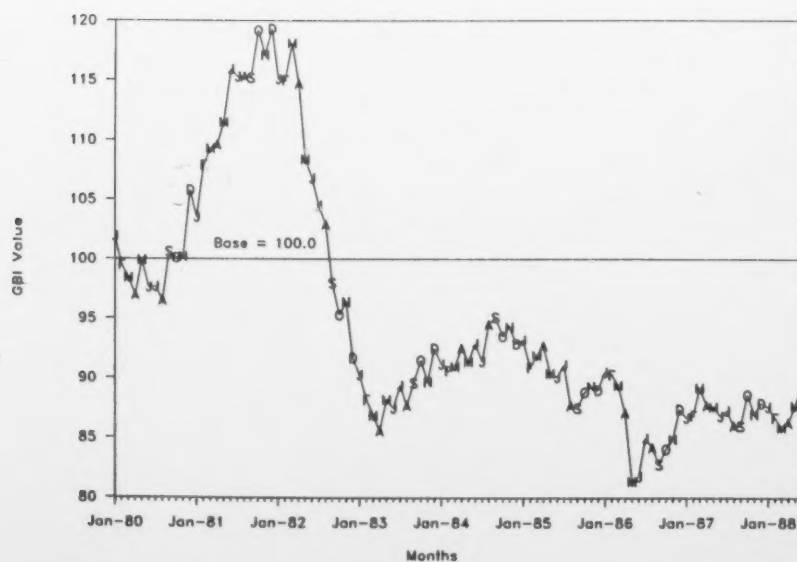
Oklahoma State General Business Index
January 1980 through June 1988



Oklahoma City MSA General Business Index
January 1980 through June 1988



Tulsa MSA General Business Index
January 1980 through June 1988



State Question 610 – Oklahoma's Unique Economic Development Financing Opportunity

RODERICK W. DURRELL

ON SEPTEMBER 20, 1988, the people of Oklahoma will have the opportunity to install an important economic development tool to facilitate capital formation by approving State Question 610¹ providing funding for a Credit Enhancement Reserve Fund (the "Fund").

Approval of State Question 610 will authorize The Oklahoma Development Finance Authority (the "ODFA" or the "Authority"), to issue not more than \$100 million principal amount of State of Oklahoma Credit Enhancement Reserve Fund General Obligation Bonds to support the Fund's facilitation of capital formation. Actual issuance of the general obligation bonds will be subject to separate approvals of the State Executive Bond Oversight Commission and the Legislative Bond Oversight Commission.²

The Fund was created³ in 1987 by the Oklahoma Development Finance Authority Act⁴ (the "ODFA Act") and the Credit Enhancement Reserve Fund Act⁵ (the "CERF Act") as part of the comprehensive Oklahoma Economic Development Act of 1987⁶ (H.B. 1444) creating a strategic statutory plan to strengthen and diversify economic activity in Oklahoma. The Fund will be administered by the

ODFA⁷ and use of the Fund is guided by the ODFA Act and the CERF Act. The CERF Act requires, among other things, the following:

The Fund shall be employed by the Oklahoma Development Finance Authority *solely* to secure the payment of principal, interest and premium, if any, on the revenue bonds and other financial obligations issued by the Authority pursuant to the Oklahoma Development Finance Authority Act, *for the specific purpose of enhancing and supporting the credit of such revenue bonds and other financial obligations*. No portion of the monies or other assets deposited to the Fund shall be expended or otherwise used by the Authority in meeting its day-to-day operating expenses, in paying the cost of issuance of the Authority's revenue bonds or other financial obligations, or in supporting any other activity of the Authority not directly related to enhancing the

credit of the Authority's revenue bonds and other financial obligations. (Emphasis added).⁸

Thus, the basic concept is for the ODFA to utilize the Fund to provide additional support to enhance the underlying credit rating of its own project or program debt obligations. In addition, the CERF Act provides the following general industry management standards for the administration of the Fund by the ODFA:

The Authority is authorized and directed to adopt initial rules and regulations governing the credit enhancement activities and administration of the Fund, including rules and regulations dealing with the subjects of project feasibility, credit evaluation, collateral evaluation, reinsurance, maximum risk retention by the Fund, avoidance of adverse risk selection, and all other factors deemed relevant by the Authority to the decision whether the Fund should provide credit enhancement to a particular issue of debt, to what extent, on what

terms, and for what premium rate.⁹

Under its statutory duty, the ODFA must administer the fund prudently and according to good insurance practice. Such administration will (1) minimize the loss experience of the Fund (i.e., risk management); (2) assure the future viability of the Fund (i.e., preservation of capital); and (3) assure the continuing availability of the proceeds of general obligation bonds issued as a credit enhancement vehicle for bond issues in Oklahoma on an ongoing basis. Accordingly, the granting of credit enhancement by the Fund will be based on principles of insurability generally applied in the credit enhancement/insurance industry.¹⁰

Benefits of a Credit Enhancement Reserve Fund

The purpose of a credit enhancement is to obtain or improve an investment grade credit rating to facilitate debt capital formation.¹¹ By providing a common credit (i.e., the Fund) for a securities offering, several different loans or financings can be aggregated in one ODFA debt financing issue. The credit support of the Fund would provide the following advantages for public and private sector users and beneficiaries:

- (1) It would *increase market access* in the capital formation process. In those cases where Fund users/beneficiaries do not have market access because they are non investment grade or they are non-ratable¹², the Fund would provide national capital market access that is not otherwise available to them.
- (2) It would *provide reduced financing costs* for the user/beneficiary. Consequently, the credit support of the Fund would provide a value added benefit to a transaction for which premiums can be charged.¹³
- (3) Aggregating or pooling smaller loans or financings would pro-

vide *economies of scale* in accessing the national capital markets by spreading the fixed costs involved in a securities issue over several discrete projects or loans.

Need for a Credit Enhancement Reserve Fund

The marketability and investment rating of a debt obligation such as an ODFA revenue bond issue is dependent on the ability of the borrower to repay, i.e., the credit worthiness of the borrower through the cash flow of its revenue sources or the assets which it has to collateralize the borrowing. The marketplace has always respected additional credit sources that enhance the security or ability of an issuer to repay if the underlying credit source should falter. With the volatility of the fixed income markets in recent years, the simplicity of an easily recognized credit enhancement source further facilitates marketing new issues and secondary trading.¹⁴ Credit enhancement methods popularized in recent years include letters of credit; various forms of surety and insurance; collateralization of the borrower's obligation by pledging marketable securities that can be revalued frequently (marked to the market); and standby commitment facilities for purchases of assets to provide liquidity.

In addition to the increased popularity of credit enhancement facilities, a major shift has occurred in the ownership of tax exempt securities. Commercial banks now own a much smaller percentage of outstanding tax exempt securities and institutions (including mutual funds and unit investment trusts whose shares are primarily owned by individuals) own a much larger share of outstanding tax exempt securities than in the past. There are several reasons for this shift of ownership of tax exempt securities which account for the lack of capital market access for smaller, non investment grade rated entities. These reasons include:

- (1) Oklahoma banks that used to

finance local projects do not need tax exempt income because of the condition of their own earnings.

- (2) Under the 1986 Tax Act,¹⁵ commercial banks making tax exempt investments have lost the deductibility (in most cases) of interest that they are incurring in order to invest in tax exempt securities. This is a definite economic disadvantage. This disadvantage is resulting in bank disinvestment in tax exempt securities. Nationally, the 500 largest banks have reduced their tax exempt municipal securities portfolios nearly 25 percent since the end of 1985.¹⁶
- (3) Liquidity has always been important. In current times of market volatility, the banks and other investors that served the smaller, non investment grade or non-rated markets find liquidity even more crucial. However, non-rated or non investment grade securities need to be liquidated. Therefore, they are difficult to place as new issue securities.

The institutional investors that have increased ownership of tax exempt securities require investment grade credit ratings and prefer sizable issues to provide continuing market information and a secondary market for liquidity if portfolio sales are necessary. These secondary market sales are facilitated if a uniform nationally recognized enhanced credit rating is attached to the security.

Financing Purposes of the Oklahoma Development Finance Authority

Under the ODFA Act, the ODFA has *comprehensive and extensive* powers to provide the means and methods for providing financing assistance for a wide variety of purposes on a state-wide basis. The spectrum of these financing purposes¹⁷ is iterated as follows:

- To expand and establish agricultural and industrial enterprises.
- To provide pollution control facilities.
- To develop public or private energy generating, distribution or conservation facilities and sources.
- To provide health care facilities.
- To provide infrastructure, waste water and capital improvement facilities.
- To provide educational facilities.
- To provide recreational facilities.
- To provide for short term advance funding and the purchase of the obligations of political subdivisions throughout the state.

Several of the ODFA financing purposes, e.g., educational facilities, purchasing obligations of political subdivisions, short term advance funding, infrastructure, waste water and capital improvement facilities are done primarily by public sector entities. Other ODFA financing purposes, e.g., expanding agricultural and industrial enterprises, financing pollution control facilities and private energy facilities, are done primarily by private business sector entities. Consequently, the Fund will have to provide credit enhancement for financing two very different categories of ODFA purposes: public sector functions and private business sector functions. Enhancing each category of financing will have very different criteria for underwriting the insurance commitment of the Fund and the leverage provided in capital formation.

Public sector entities, especially those that have taxing power or a stable source of enterprise revenues, are viewed by the credit rating agencies and the marketplace as being inherently more creditworthy. More leverage can be obtained to support capital formation for these public sector entities because of the lower likelihood of prospective defaults. On the other hand, private business entities that are small are viewed as more speculative in nature, are closely held so financial information may not be

readily available, and the business is harder for analysts to analyze. Consequently, the market and credit rating agencies would treat this type of financing much more conservatively than financing for public sector entities and the Fund would have less leverage in supporting capital formation.

Each of the ODFA financing purposes has very substantial state wide capital formation requirements.¹⁸ In addition, until insurance underwriting experience develops into a track record, the leverage of the Fund in supporting capital formation would be expected to be lower than it will be ultimately with a successful track record of risk management. Consequently, it is submitted that the demands on the Fund may far exceed the resources of the Fund to provide for credit enhancement, and this scarce resource may have to be allocated by target market, by geographic distribution and by purpose. In providing such allocation, there should be certain threshold standards and public policies applied by the Board of Directors of the ODFA to allow a widespread use of the Fund so that all 77 counties in the state can have the prospect of participating in the economic recovery stimulated by the Fund and the other development activities which are ongoing in the state.

Target Markets and Fund Rating Objective

One of the threshold determinations that the Board of Directors of ODFA will have to make is to determine the target level of credit rating that is desired for the Fund. This targeted credit rating is directly affected by the types of credits that are desired to be enhanced by the Fund. For instance, the higher the credit quality of the project that is being insured by the Fund or the higher the credit quality of the portfolio loans in a program insured by the Fund, the better the rating for the Fund perhaps Aa/AA by Moody's Investors Service, Inc. and Standard & Poor's Corporation, respectively, or even Aaa/AAA. However, a portfolio that is predominantly investment grade (to

support the higher credit rating) would deny the benefits of the Fund to the many small communities and businesses throughout the state that are non investment grade ratings or that are non-ratable. If the project or program portfolio consists primarily or entirely of these types of credits, the Fund would have to target a lower credit rating, such as an A rating. However, the Fund would be assisting those entities that have the least market access and it would provide the most value added use.

Public Sector Entities

A public sector entity that can obtain an investment grade credit rating has access to national capital markets. In addition, if an enhancement to an Aaa/AAA credit rating is economically desirable, the entity can obtain credit enhancement from a private credit enhancement provider to facilitate marketing its debt obligation. If the Fund insures this type of credit, the Fund would compete with private sector credit enhancement providers and leave needy entities unserved. However, if the Fund target level is an A credit rating, which would be expected from insuring non investment grade and non-ratable credits, it would not make sense for an investment grade rated issuer to use the Fund enhancement and pay a premium.

Private Business Sector Entities

Private business entities that are large, well capitalized or "blue chip" companies have, or can obtain, investment grade credit ratings to access national capital markets. They would achieve little benefit from the Fund unless the Fund target rating level is an Aaa/AAA.

However, it is widely held in industrial development circles that most new job creation does not come from these large companies but rather, most new job creation comes from the expansion of existing businesses which are 100 employees or less in size. Most of these firms are too small to obtain a credit rating and are not large

enough to obtain bond insurance for long term financing under the more stringent portfolio requirements that monoline bond insurance companies have. These companies need market access for their capital formation and would find it very beneficial to use the Fund enhancement for their financing needs.

Target Markets Recommendation

If the Fund needs to be rationed, it would make sense for the Fund to target a market that is not being served by private credit enhancement providers. It is submitted that the greatest need for the Fund to facilitate capital formation is for the following categories of credit:

- (1) In the public sector, entities which are or would be lower investment grade credit ratings, non investment grade credit ratings, or non-ratable are the entities that are the most needful for Fund support.
- (2) In the private business sector, the smaller business entities that are or would be lower investment grade ratings, non investment grade credit ratings, or non-ratable are the entities that are the most needful for Fund support.

Focusing on the above entities as a target market for the Fund would accomplish two purposes: (1) the Fund would not compete with the private credit enhancement providers, but would rather complement that function; and (2) the Fund would meet a public purpose of facilitating capital formation for entities that have to pay higher rates of interest, or may not be able to borrow at any cost because of a lack of market access. Consequently, this approach would provide the greatest value added for the Fund premium charged.

Fund Rating Objective

It is submitted that the rating level objective for the Fund should be an A credit rating. This provides an invest-

ment grade rating marketability for ODFA debt obligations while allowing the Fund to be less selective in its insurance underwriting standards than would be the case for a portfolio that would support an Aaa/AAA credit rating. The lower standards will allow more needful entities to benefit from the Fund enhancement and complement the resources of private credit enhancement providers. There are many more potential reinsurers at the A rating level to increase Fund capacity. Further, the A rating of the Fund will allow a debt obligation of ODFA to be further enhanced by obtaining a wrap-around letter of credit or bond insurance to an Aaa/AAA credit rating if it is economically justifiable.¹⁹ Finally, since the State of Oklahoma full faith and credit rating is Aa,²⁰ an A rating objective is consistent with the credit rating agencies' concept that financings where the state is morally obligated to provide funding, but not legally obligated to do so (a moral obligation), are rated one full level below the basic full faith and credit rating.

Allocation of the Fund by Purpose

As previously noted, ODFA is empowered to accomplish many types of public sector and private sector financing purposes. A favorable factor in obtaining the credit rating for the Fund would be a portfolio mix or diversification of purposes which are insured by the Fund so that there is no complete concentration in any one industry or type of financing.

Oklahoma Futures, a statutory public/private economic development planning and coordinating board, conducted an extensive goal setting process in 1987 and early 1988.²¹ The Oklahoma Futures' Strategies and Implementing Actions for achieving the State's Five Year Goals for economic development charge ODFA with two major missions in increasing the availability and accessibility of capital: (1) implement infrastructure finance programs; and (2) implement

industrial finance programs.²² It is submitted that the Fund should focus on these two categories of financing purposes to be consistent with the goal setting and planning of Oklahoma Futures.

Infrastructure Financing

The National Council On Public Works Improvement (the "Council") was created to assess the state of America's infrastructure. In its final report²³ to the President and Congress in February, 1988, the Council defined infrastructure as those public works facilities including highways, mass transit, aviation, water resources, water supply, and waste water, solid waste and hazardous waste disposal.²⁴ The Council concluded in its final report that: "our infrastructure is inadequate to sustain a stable and growing economy."²⁵ This illustrates the inter-relation between industrial finance and infrastructure which is directly needed for the functioning of business and is also the foundation for economic development. Further, the Council notes the following in its section entitled "Reinvesting in America":

While a sound infrastructure does not guarantee future prosperity, long-term economic growth cannot be achieved without it. Economic efficiency and public health both are linked inextricably to adequate transportation, water quality, and waste disposal services. In addition, infrastructure investment directly supports additional economic activity. For every public dollar spent on an annual basis to build and maintain our network of roads, streets, and bridges, the private sector spends \$15 to move people and goods. For every public aviation dollar, private firms and individuals spend nine.

If we spend too little on public works or if we invest

in inefficient projects, society loses more than the direct public cost. In the long run, our ability to compete in the international economy will be weakened, and our standard of living will suffer.²⁶

It has been recommended to the Board of Directors of the ODFA that a substantial part of the Fund resources (such as 40 percent) be allocated to enhancing infrastructure improvements financings by the ODFA.

Private Business Financing

This category covers a number of the iterated purposes for ODFA financing and, therefore, Fund enhancing. In addition, an important public purpose is present because of the current economic need to diversify our economy and to facilitate job growth. It has been recommended to the Board of Directors of the ODFA that a substantial portion of Fund resources (such as 45 percent) be allocated to enhancing economic development financing of private businesses by ODFA, both on a tax exempt financing and taxable financing basis.

Taxable ODFA industrial development bonds or notes, enhanced by the Fund, would be particularly attractive for Oklahoma banks to acquire for investment. In addition to fulfilling customers' financing needs, the securities would offer taxable pricing, enhanced bank asset quality, market liquidity of rated investment paper, and pledgability for collateralization of deposits of public funds,²⁷ and exemption from State of Oklahoma income taxation.²⁸

Although concentration in private business economic development finance can be expected to provide less leverage of the Fund in supporting capital formation, the growth of jobs for citizens of the state is an overriding public purpose to further the improvement in the state economic situation.

Health Care Facilities Financing

Tax exempt financing for health

care facilities, particularly hospitals, has been a large portion of tax exempt finance in the past 15 years. This type of financing is done by public health care agencies or by not for profit [501(c)(3)] organizations.

In most metropolitan areas, the planning policy concern is that there are too many hospital beds. On the other hand, health care is extremely crucial for our aging population and the financing need is particularly acute in the more rural areas of the state and in the smaller health care facilities because they may not meet the threshold criteria of the credit rating agencies. Consequently, they are non-ratable, and denied market access regardless of their financial condition or the community need for the facility. It has been recommended to the Board of Directors of the ODFA that a portion of Fund resources (such as 15 percent) be allocated to enhancing ODFA financing of smaller health care facilities which would be primarily in the non metropolitan areas of the state. This would also further diversify the portfolio mix of the Fund.

Geographic Distribution of the Fund

Since the Fund is supported by state general obligation bonding authorization, it is very important for all areas of the state to have access to the Fund for enhancement. It has been recommended to the Board of Directors of ODFA that the enhancement resources of the Fund be distributed equitably throughout the state. To accomplish this, it has been recommended to the Board of Directors of ODFA that the nine Economic Development Regions created in implementing the state's economic development efforts be utilized. These regions are based on areas of local determination and are coordinated by the Oklahoma Department of Commerce.

The allocation task would be to provide an equitable distribution among the regions. If an equal portion of the credit enhancement resources of the Fund was allocated to each region, the

areas with the greatest population, and presumably the greatest capital needs, would not be benefitted proportionately by the Fund. On the other hand, if the Fund is apportioned approximately according to the relative populations, the rural areas may not be properly benefitted because of the greater per capita costs of public functions in sparsely populated areas.

It has been recommended to the Board of Directors of ODFA that the Fund include a policy of making an initial allocation to each of the nine Economic Development Regions in a minimum amount (such as \$5 million) with the remaining balance apportioned according to population (based on the latest population estimates). In all cases, loans or projects would have to meet the underwriting standards of the Fund.

Finally, it has been recommended to the Board of Directors of the ODFA that there should be flexibility in the rules and regulations for a policy of redistributing the allocations of the Fund resources from one or more areas to one or more other areas based on actual usage and demonstrated need for the enhancement to benefit the most citizens possible in the state.

Public Policy Considerations for the Fund

The following policy standards have been recommended to the Board of Directors of the ODFA:

- The Fund should complement private credit enhancement providers rather than competing with private providers. To the extent an ODFA project or program can obtain private provider credit enhancement, it should do so and reserve the capacity of the Fund for other users in the state who have difficult or expensive market access without the Fund.
- The entities that have national capital markets access should do so and use private credit enhancement providers if

enhancement is economically feasible.

- The credit rating objective should be an A rating. This will provide investment grade rating marketability of ODFA debt obligations while allowing the Fund to reach further down in the credit rating strata and assist lower investment grade credit rated, non investment grade credit rated, or non-ratable entities. The A level is also consistent with the credit rating agencies' concept that where a state is morally, but not legally, obligated to pay, the credit is rated at least one full level below the state's basic full faith and credit rating.
- The Fund should be geographically targeted for an equitable distribution throughout the nine Economic Development Regions of the state.
- All areas of the state should have equal access to the Fund for enhancement of project or program financings that meet the underwriting criteria of the Fund.
- Planning and technical support, particularly for infrastructure facilities, should be provided as part of any program so that duplication of facilities or poorly conceived facilities are not financed just because a good capital formation mechanism is available from the enhancement by the Fund.
- The minimum project loan guarantee amount should be at a low threshold level to encourage broad participation. However, the amount should not be so low as to have too many small uneconomical loans for servicing and liability management purposes. It has been recommended to the Board of Directors of the ODFA that this minimum level be established at \$250,000 and a maximum loan amount be established at \$7,500,000, except for extenuating circumstances.
- The ODFA, as administrator of

the Fund, should look to see what a community has done to assist itself in financing projects prior to seeking support from the Fund.

- The Fund portfolio (purposes of enhancement commitments) should have a diverse mix among private business finance, infrastructure and small health care facilities.
- The Fund should obtain leverage in the formation of capital consistent with prudent management. However, there is a policy trade-off in this regard. Seeking greater leverage for the Fund would mean that the Fund will have to be more selective by requiring higher grade credits in the insured portfolio or that greater risk will be shifted to other parties. If greater risk is shifted to other parties, the result will be that the control of the credit/underwriting decision for financing and enhancing projects or programs will shift away from the ODFA to the other parties.
- Reinsurance should be utilized to increase the capacity of the Fund.
- The Fund will need to have liquidity for immediate payment of any claims and a mechanism for a prompt replenishment of any depletion of Fund capital from a secure source, including the general obligation bonding authorization.
- The ODFA will have to organize a group of experienced lending officials with demonstrated credit/insurance commitment experience. However, if the ODFA provides permanent takeout financing in conjunction with bank construction loan financing, existing loan delivery systems would be utilized and administrative duplication would be minimized.

Conclusion

The State of Oklahoma has enacted

a strategic statutory plan to strengthen and diversify economic activity. As part of the implementation of this statutory plan, Oklahoma Futures has conducted an extensive analysis, planning and goal setting process in developing the State's Five Year Economic Development Plan. Passage of State Question 610 to invigorate the Fund and facilitate formation of debt capital in Oklahoma is an integral part of achieving many of the state's economic development goals.

The demand for capital formation in Oklahoma will continue to be immense, especially if we achieve our objective of a growing state economy. This capital demand is in both the public sector and the private business sector. Public sector capital demand most pertinent to the Fund is for infrastructure which forms a necessary foundation to strengthen, increase and diversify Oklahoma's economic activity. Private business sector capital demand will support growth in established businesses and attraction and establishment of new businesses to strengthen, increase and diversify Oklahoma's economic activity. Passage of State Question 610 to invigorate the Fund and facilitate formation of debt capital in Oklahoma will directly assist the achievement of the public policy economic goals.

It is submitted that State Question 610 is a unique opportunity for Oklahoma to install an important economic development tool to facilitate capital formation.

Notes

¹State Question 610 is provided for by House Joint Resolution Number 1034 (H.J.R. No. 1034) enacted by the second regular session of the 41st Legislature and enrolled on January 26, 1988. H.J.R. No. 1034 provides for a referendum on the following proposed amendment to Article X of the Constitution of the State of Oklahoma by adding a new Section 42 which reads as follows:

The Oklahoma Development Finance Authority is hereby authorized to issue general obligation bonds, in an amount not to exceed One Hundred Million Dollars (\$100,000,000.00), for the purpose of providing an economic development credit

enhancement reserve fund for the Authority. This fund shall be used by the Authority solely to secure the payment of principal, interest and premium, if any, on the revenue bonds and other financial obligations issued by the Authority after other pledged monies and other reserve funds are used to the extent allowable by law. The Legislature shall provide sufficient appropriations to pay the principal and interest of any general obligation bonds issued pursuant to this resolution. Further, the Legislature shall establish a method by law to provide for issuance of the bonds or portions thereof when it is necessary and to provide for administration of the economic development credit enhancement reserve fund.

For a companion state question, see State Question 611 (House Joint Resolution Number 1035) which allows the Oklahoma Center for the Advancement of Science and Technology ("OCAST") to use public funds not exceeding 1 percent of total state appropriations for the current fiscal year to promote economic development through grants or loans to individuals, companies, corporations or associations and by investing in private enterprises. State Question 611 would amend Section 15 of Article X of the Constitution of the State of Oklahoma.

²74 Okla. Stat., §5063.11D (Supp. 1987). The Executive Bond Oversight Commission is composed of five members: the Governor, the Lieutenant Governor, the Director of the Oklahoma Department of Commerce; and two persons appointed by the Governor; 62 Okla. Stat., §695.5A (Supp. 1987). The Legislative Bond Oversight Commission is composed of six members: the chairs of the following Oklahoma State Senate Committees - Appropriations, Economic Development, and Judiciary; and the chairs of the following Oklahoma House of Representatives Committees - Appropriations and Budget, Economic Development, and Judiciary; 62 Okla. Stat., §695.4A (Supp. 1987).

Separate approvals of the Executive Bond Oversight Commission and the Legislative Bond Oversight Commission are required for the commitment of credit enhancement by the Fund for any bonds issued by the ODFA, 74 Okla. Stat., §5063.4F (Supp. 1987). In addition, the two Oversight Commissions have to approve or disapprove any bonds or indebtedness being issued by the ODFA to the extent such bonds or indebtedness are supported pursuant to the CERF Act, 62 Okla. Stat., §695.8A.3 (Supp. 1987).

³Creation of the Fund is provided for in 74 Okla. Stat., §5062.12 (Supp. 1987) which states: "The Oklahoma Development Finance Authority is authorized to create an insurance

fund consisting solely of funds deposited pursuant to Section 81 of this Act [74 Okla. Stat., §5063.11 (Supp. 1987)]." That section authorized the ODFA "to issue State of Oklahoma bonds, to be known as Credit Enhancement Reserve Fund General Obligation Bonds, in a total principal amount not to exceed \$100,000,000." (Parenthetical added).

⁴74 Okla. Stat., §5062.1 - .22, (Supp. 1987).

⁵74 Okla. Stat., §5063.1 - .20, (Supp. 1987).

⁶Oklahoma Economic Development Act of 1987, Ch. 222, 1987 Okla. Sess. Laws. 1319. See generally Rogers, *The Oklahoma Economic Development Act of 1987 - A Key to Oklahoma's Future?*, 59 Okla. B.J. 805 (1988).

⁷74 Okla. Stat., §5063.3 (Supp. 1987).

⁸74 Okla. Stat., §5063.4A (Supp. 1987).

⁹74 Okla. Stat., §5063.4B (Supp. 1987).

¹⁰*Ibid.*

¹¹The two primary credit rating agencies for public debt issues are Moody's Investors Service, Inc. and Standard & Poor's Corporation. The rating assessment categories are similar for the two agencies although the symbols vary. The investment grade ratings for the respective agencies are shown below:

Moody's: Aaa (highest rating); Aa; A, and Baa.

Standard & Poor's: AAA (highest rating); AA; A; and BBB.

An assigned credit rating is not a recommendation to buy, sell or hold a debt security and a rating is subject to change, suspension or withdrawal by the agency making the assignment.

¹²A non investment grade credit rating is a credit that is assigned a rating below Baa (Moody's) or below BBB (Standard & Poor's). Non-ratable entities would be ones that do not meet the threshold requirements of the credit rating agencies for a credit rating assessment.

¹³74 Okla. Stat., §5062.12 (Supp. 1987).

¹⁴Credit enhancements to the highest investment grade rating (Moody's Aaa and Standard & Poor's AAA) have been very popular in the marketplace. In 1987, the long term municipal bond volume was \$104.6 billion according to the Public Securities Association ("PSA"). Of this amount, it is estimated that approximately 20 percent (\$19.4 billion per PSA) of the volume was supported by insurance from monoline bond insurance companies as a credit enhancement and another 10 percent (\$11.1 billion per PSA) of the volume was supported by international banks' letters of credit as a credit enhancement.

The economic viability of purchasing such a credit enhancement depends on the interest yield curve difference between a Baa/BBB or

an A rated offering and an Aaa/AAA rated offering and whether the present value of the future interest rate savings exceeds the cost of the fee paid to the credit enhancement facility provider. However, an enhancement does not have to seek the highest investment grade rating to add value. Providing the highest investment grade rating is primarily a marketing strategy for the third parties which independently provide such enhancements.

¹⁵Tax Reform Act of 1986, 26 U.S.C. §1 et seq (1986).

¹⁶Krepa, *Banks Cut Municipal Holdings 14% in '87*, American Banker - Bond Buyer Credit Markets, May 9, 1988, §2, at 17.

¹⁷See *inter alia*, 74 Okla. Stat., §§5062.2B1-10, .3C, .5, and .8 (Supp. 1987).

¹⁸For instance, the Infrastructure Task Force of the Oklahoma Futures planning process reported a total known infrastructure needs estimated cost, including statewide water conveyance (\$7.804 billion) and chloride control (\$1 billion), of \$43.271 billion from 1985 - 2000, assuming no population growth and service of current needs only. Of these estimated costs, there was a potential infrastructure funding shortfall of \$22.171 billion. Infrastructure Task Force, Oklahoma Infrastructure Study II: Report and Recommendations to Oklahoma Futures for the Oklahoma Five Year Economic Development Action Plan, at 79 (December 30, 1987).

¹⁹74 Okla. Stat., §5062.12 (Supp. 1987).

²⁰Moody's Investors Service, Inc. rates the full faith and credit (general obligation) of the State of Oklahoma Aa, the second highest credit rating available. The State of Oklahoma's general obligation credit has not been rated by Standard & Poor's Corporation in the past although revenue bond projects and programs of numerous state agencies have been rated by Standard & Poor's.

²¹74 Okla. Stat., §5002.1-6, (Supp. 1987). Oklahoma Futures is a statutory board consisting of 21 members. The mission of Oklahoma Futures is "to develop strategic economic policies, to maintain the integrity of economic development purposes across all state institutions, policies and programs and to be Oklahoma's originator, proponent, coordinator and overseer of state analyses and plans." 74 Okla. Stat., §5002.2 (Supp. 1987).

In 1987 and early 1988, Oklahoma Futures conducted an extensive analysis, planning and goal setting process. Eighteen separate Task Forces involving 650 Oklahomans submitted reports to Oklahoma Futures at the end of 1987. These reports were consolidated and condensed and in January, 1988, Oklahoma Futures established 13 goals for the state. In February, 1988, 20 strategies were adopted to accomplish the goals and on March 24, 1988,

Oklahoma Futures adopted the "Strategies and Implementing Actions for the Oklahoma Five Year Economic Development Plan."

ODFA had to submit a schedule of activities to Oklahoma Futures to facilitate development of the first five year plan provisions applicable to the ODFA and has to submit an annual business plan to Oklahoma Futures for approval. 74 Okla. Stat., §5062.4 (Supp. 1987).

²²Strategies and Implementing Actions for the Oklahoma Five Year Economic Development Plan, at 11. (March 24, 1988) (as adopted by

Oklahoma Futures).

²³National Council on Public Works Improvement, *Fragile Foundations: A Report on America's Public Works* (1988), p. 2.

²⁴*Ibid.*, p. 2.

²⁵*Ibid.*, p. v.

²⁶*Ibid.*, p. 9.

²⁷74 Okla. Stat., §5062.13 (Supp. 1987).

²⁸74 Okla. Stat., §5062.11 (Supp. 1987).

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Author's Note: On May 25, 1988, the author submitted a comprehensive Phase I Report to the Board of Directors of The Oklahoma Development Finance Authority concerning public policy and financial guarantee concepts regarding the implementation of the Oklahoma Credit Enhancement Reserve Fund Act of 1987. The material herein is derived from that Report.

The Oklahoma Insurance Premium Tax: A Tax That Didn't Work

LARKIN WARNER

TAX INCENTIVES TO promote economic development have expanded substantially in Oklahoma in recent years. These have included five-year ad valorem tax exemption for new manufacturing and processing facilities, sales tax exemptions for the purchase of new plant and equipment, and various incentives aimed at stimulating entrepreneurial activity. Oklahoma's economic difficulties following the close of the oil boom in 1982 have no doubt stimulated interest in tax incentives. But there is nothing new about Oklahoma's use of tax incentives to promote economic development; such incentives can be found in the treatment of the insurance industry in the state's 1907 constitution. Moreover, such incentives do not always work; the 1988 session of the Oklahoma Legislature abolished the state's long-standing system of tax incentives operating through the state insurance premium tax.

Rhetoric in support of tax incentives to promote business growth emphasizes that the state and local tax revenues foregone through such policies are offset by the positive effects of general economic expansion—perhaps even to the extent that the net effect on public budgets is

positive. At the very least, an individual state must offer a system of incentives because other states are doing the same. Whatever their merits from an economic development point of view, these incentives almost always violate generally accepted principles of tax policy. This was certainly true of the Oklahoma insurance premium tax prior to 1988. The balance of this article introduces the pre-1988 Oklahoma insurance premium tax, reviews the significance of the insurance industry in the Oklahoma economy, evaluates the tax in the context of the principles of a "good" tax, and explains how the 1988 legislative session reformed the tax.

The Oklahoma Insurance Premium Tax

In recent years, Oklahoma's insurance premium tax has generated between three and four percent of the state government's total tax revenue (Table 1). The state's 1907 constitution established a two percent (minimum rate) insurance premium tax to be paid by "foreign" insurance carriers with home offices out-of-state. Insurance carriers are firms that issue policies; some carriers sell directly to the public while many operate through independent agents. In 1941, the

legislature raised the rate to four percent—a rate which until 1988 was one of the highest in the nation. By taxing foreign insurance carriers and exempting domestic (in-state) carriers, the state attempted to promote a home-grown insurance industry. In 1945, out-of-state companies were provided the opportunity to reduce their Oklahoma premium tax to the extent that they placed a share of their assets in Oklahoma securities—the greater the share, the lower the rate, with a rate of zero percent being reached for firms investing 30 percent or more in Oklahoma. Oklahoma securities were defined broadly to include state and local government debt, bank deposits, and other property and securities.

In 1981, a group of out-of-state companies initiated a court challenge to Oklahoma's premium tax law as a discriminating violation of the U.S. constitution's equal protection clause. A significant share of the premium tax began to be paid under protest. The matter dragged on, and in an attempt to remove the basis for the equal protection challenge, the law was changed in 1985 to apply the premium tax and investment incentive to all carriers both foreign and domestic. In 1987, a group of the protesting

TABLE 1
Insurance Premium and Total State Tax Revenue
Oklahoma
Selected Years 1974-1986
 (millions of dollars)

Fiscal Year	Total Tax Revenue	Insurance Premium	Insurance Premium as a Percent of Total
1974	\$ 777.5	\$ 27.6	3.5
1976	1,000.2	33.3	3.3
1978	1,315.5	49.0	3.7
1980	1,776.0	54.1	3.0
1982	2,713.0	71.7	2.6
1984	2,662.0	100.3	3.8
1986	2,959.6	112.5	3.8

Source: U.S. Bureau of the Census, *State Government Tax Collections, 1974-1986*.

carriers reached a settlement in which the state agreed to return \$35 million. However, a group of companies continued the court challenge because the sliding scale of rates based on investment in Oklahoma securities was discriminating against large, out-of-state carriers. For example, a giant life insurance carrier incorporated elsewhere with assets of \$100 billion could hardly be expected to invest \$30 billion in Oklahoma. A small, Oklahoma-based carrier with a few million dollars in assets would have no trouble placing 30 percent in Oklahoma. Moreover, the Oklahoma law was alleged to discriminate against life insurance carriers in comparison with property and casualty companies. The latter maintain a much lower ratio of total assets to premiums than do life insurance companies.

The Insurance Carrier Industry and the Oklahoma Economy

At the national level, the insurance carrier industry is responsible for about 1.3 percent of total U.S. employment and generated 273 thousand new jobs between 1986 and 1986.¹ It is also a relatively high-wage industry nationally. These growth characteristics make it an excellent candidate for state economic development policy. In Oklahoma, however, the industry ex-

hibited no growth throughout much of the '80s, with employment hovering around nine thousand jobs through early 1987 and dropping to slightly below eight thousand in 1988.² Moreover, the insurance carrier industry in Oklahoma appears underdeveloped in comparison with the rest of the nation; with 1.3 percent of the U.S. population, the state accounted for only 0.7 percent of 1986 U.S. insurance carrier employment.

How Did the Tax Measure Up?

Four of the most important criteria used to evaluate particular tax sources are efficiency, equity, stability, and economic development. The Oklahoma insurance premium tax prior to 1988 fell short on all four grounds.

Tax Efficiency. All taxes reduce the disposable income of taxpayers. In addition, a tax drives a wedge between the private costs of producing a good or service (insurance) and the price paid by the purchaser (a premium). If it is assumed that the free market generally does the best possible job of allocating resources to the benefit of society, then a tax is efficient to the extent that it interferes as little as possible with this free market allocation. The higher the tax rate and the more narrow the tax base, the greater is this interference.

With a four percent premium tax rate roughly twice the national mean and mode, Oklahoma chose to drive a bigger wedge between the premium price and the private costs of producing insurance than was found elsewhere. From a national efficiency point of view this meant that Oklahoma businesses and households were using a suboptimal aggregate amount of insurance. *It was as though state government in Oklahoma set out to discourage the purchase of insurance in comparison with other states.* Viewed this way, the pre-1988 Oklahoma premium tax did not grade well in terms of efficiency.

A tax which is broadly applied is also more efficient than one with a narrow base. Oklahoma's insurance premium tax base exempted certain forms of health insurance such as Blue Cross/Blue Shield and health maintenance organizations. Self-insurance programs by business firms were not included and would be difficult if not impossible to cover.

Tax Equity. The principle of tax equity focuses on the economic characteristics of those who pay a tax. In an ultimate sense, the incidence or burden of an insurance premium tax is on the general public. The insurance carrier industry is highly competitive and must earn a normal after-tax return on investment. The same can be said of most businesses which purchase insurance. Individuals, of course, spend a good deal directly on personal insurance. The premium tax is thus paid directly by, or passed on to, the public in general.

Tax equity has horizontal and vertical dimensions. The criterion of horizontal equity is fulfilled when taxpayers in like circumstances pay the same taxes. Vertical equity requires greater tax payments from those with greater ability to pay. A regressive tax which takes a larger share of income from the poor than from the wealthy violates this criterion; a proportional or progressive tax does not.

From a nationwide viewpoint, the pre-1988 Oklahoma tax violated the principle of horizontal equity. Why, for example, should a Missouri taxpayer

pay a rate half as great as an Oklahoman taxpayer in similar circumstances? Horizontal equity was further violated by the practice of other states to levy a retaliatory state premium tax on Oklahoma carriers doing business in their jurisdiction. This meant that an Oklahoma-based carrier selling in Missouri would have to pay a four percent rate, while firms from many other states (with lower rates) were paying less on their Missouri premiums.

Within Oklahoma, horizontal equity was violated by the scaled reductions in the rate for carriers investing in Oklahoma. Many out-of-state firms could not access the lower rates. The practice also favored property and casualty companies over life companies because of their lower ratios of assets to premiums.

Oklahoma legislation passed in 1987 provides credits against the state's premium tax for jobs associated with the establishment or expansion of regional home offices after November 1, 1987.³ The purpose of this measure was to attract a regional home office of a major carrier company to Tulsa. This measure clearly violates the principle of horizontal tax equity; such credits are not available for carriers incorporated in Oklahoma or to out-of-state carriers with already-existing Oklahoma facilities.

With a flat rate of four percent applying to most carriers, the Oklahoma premium tax was probably broadly proportional when evaluated in terms of vertical equity. People and firms paying higher premiums pay higher taxes. However, for insurance by individuals, the tax was probably regressive with respect to the very poor. Consumers with less than \$5,000 in 1982-1983 income spend a significantly higher share of their income on life and other personal insurance.⁴ This meant that a four percent premium tax took a larger share of their income than for people in higher income classes. For health insurance, the premium tax appeared to be generally regressive; the share of income devoted to health insurance falls rather steadily as income rises. Auto insurance is progressive with

respect to the very poor only because many cannot afford vehicles or avoid carrying insurance.

Tax Stability. A tax that generates revenues varying wildly from year-to-year does not provide a reliable source for funding government services. Moreover, revenue should grow along with the general economy. Oklahoma's pre-1988 insurance premium tax was fundamentally a stable and reliable source of revenue. Compound annual growth rates for premium tax revenue illustrate the tax source's relative stability as calculated from Table 1.

Fiscal years 1974-1980: 11.9
1980-1986: 13.0
1974-1986: 12.4

Unfortunately for Oklahoma state government, since protest suits began in 1981, the premium tax became a source of substantial revenue instability. Table 2 reports the premium tax revenues actually flowing into Treasury Funds since fiscal 1977. Wild swings in available premium tax revenue occurred after 1981 because a portion of

the tax paid under protest was placed in an escrow account and because the state later dipped into that account to alleviate severe fiscal stress associated with the collapse of the energy boom in fiscal 1983. Due to questions of constitutionality, what should have been a relatively stable tax source became quite unstable.

Economic Development. As noted at the outset, economic development incentives are becoming an ever-increasing element in state tax policies. The provisions in existence from 1907 to 1985 exempting in-state companies from the tax certainly did not stimulate a vigorous concentration of insurance carriers within the state's borders. No doubt there are historical complexities explaining the concentration of carriers in states such as Connecticut and Massachusetts—states with somewhat longer histories than Oklahoma's. However, with a state premium tax rate roughly twice the national average, and with other states practicing retaliation against Oklahoma, state-based carriers faced

TABLE 2
Treasury Fund Receipts
Total and Insurance Premium Taxes
Oklahoma
Fiscal Years 1977-1987
(millions of dollars)

Fiscal Year	Total Tax Revenue	Percent Change	Insurance Premium Tax	Percent Change	Insurance Premium Tax as a Percent of Total
1977	\$ 989.1		\$38.3		3.9
1978	1,167.4	18.0	49.0	27.9	4.2
1979	1,350.2	15.7	49.6	1.2	3.7
1980	1,602.2	18.7	50.5	1.8	3.2
1981	2,041.8	27.4	71.7	42.0	3.5
1982	2,432.9	19.2	32.1	-55.2	1.3
1983	2,595.5	6.7	86.2	168.5	3.3
1984	2,442.1	-6.7	68.0	-21.1	2.8
1985	2,716.7	12.2	69.3	1.9	2.6
1986	2,931.6 ^a	7.9	71.9	3.8	2.5
1987	2,592.4 ^a	-11.6	64.5	-10.3	2.5

Source: Office of State Finance, Schedule II reports.

^aIncludes Tag Agent funds not previously treated as taxes.

about a two percent penalty as they attempted to expand their business beyond Oklahoma's borders. What was intended to be a stimulus to the development of a domestic insurance industry was actually a deterrent.

The insurance premium tax was also intended to promote economic development by providing an incentive to insurance carriers to invest in "Oklahoma securities." Since the tax rate reduction stimulus was based on percent of assets placed in Oklahoma, the economic development stimulus violated the tax equity criterion. Worse, yet, the policy reflected a misunderstanding of the distinction between financial and real investment and generated a taxpayer cost far above what could be justified to attract the financial investment results.

Economic development occurs in Oklahoma when financial investment takes the form of new plant and equipment. No economic development occurs when an insurance carrier purchases an *already existing* physical asset in Oklahoma or when it purchases a previously issued financial security such as a municipal bond. Thus, there was no necessary link between the premium tax investment incentive and state economic development.

Economists use the concept of "tax expenditures" to quantify the effects of any special tax "breaks", "loopholes" or incentives. For the insurance premium tax, the Oklahoma investment incentive program tax expenditure for a particular carrier is the difference between the tax which would have been paid at the four percent rate and the tax which was actually paid. When this procedure is applied to all carriers taking advantage of the investment incentive in calendar 1986, a total tax expenditure of \$36.5 million emerges. Premium taxes would have been roughly \$36.5 million higher if the investment incentive program had not been in place. Put differently, Oklahoma state government engaged in a tax expenditure of \$36.5 million to achieve the investment policy goals of the tax statute.

The twelve carriers receiving the greatest benefit from the investment program were the beneficiaries of \$23.3 million in tax expenditures—64 percent of the total (Table 3). Based upon the reported assets of these firms and the actual rate they paid, it is possible to estimate the actual investment in "Oklahoma securities" required. In 1986, this annual flow of \$23.4 million in tax expenditures was responsible for a stock of Oklahoma financial investment of \$267.1 million. One dollar of annual state tax expenditure supported \$11.41 in state financial investment. If the rest of the firms participating in the program were about the same as the twelve largest, the \$36.5 million tax expenditure would support investment of about \$417 million. This means that in addition to the private returns necessary to sustain \$417 of investment (say, 10 percent) state government contributed another 8.7 percent. A combined public and private interest cost of 18.7 percent is well above a normal return and in excess of what is needed to attract low-risk financial investment to the state.

The 1988 Insurance Premium Tax Law

When a partial settlement was reached in 1987 between the state and insurance carriers challenging the

constitutionality of the tax, the state agreed to establish an "Interim Study Group" to examine the law and make recommendations to the Governor and Legislature. The Study Group's report, issued in early February, 1988, recommended dropping the rate from four percent to two percent and expanding the tax base to include Blue Cross companies and health maintenance organizations (HMOs). The lower rate was to apply only to life insurance; the existing system of a four percent rate and discounts for investment in "Oklahoma securities" would be maintained for property and casualty companies. The Study Group anticipated vigorous political opposition to eliminating the tax breaks for the property and casualty companies.

The Oklahoma Legislature determined that insurance premium tax reform should apply to both life and property and casualty carriers as well as Blue Cross and the HMOs. House Bill 2013 was signed into law in late March, 1988, and provided for a quick phase out of the investment incentives during 1988. After that the rate will be 2.25 percent. The new tax policy will be essentially revenue neutral raising about the same total amount as was paid under the old tax. The Legislature and Governor had made a major stride in reforming the insurance premium tax by cutting the rate nearly in half and broadening the base. This reform removed the

TABLE 3
Impact of Investment Incentives
Twelve Insurance Companies
Receiving Largest Tax Expenditure
Oklahoma
Calendar Year 1986

	Tax Expenditure by State Government (000)	Percent of Total Tax Expenditures	Assets (000)	Minimum Investment in Oklahoma ^a (000)
Top 4 participants	\$13,857	38	\$ 373,789	\$112,137
Top 8 participants	19,478	53	508,231	152,469
Top 12 participants	23,350	64	1,113,839	267,107

Source: State Insurance Commissioner, 80th Annual Report and Directory, 1987; special computer printout of companies with tax rate less than 4 percent.

^aBased on tax rate paid.

challenge of unequal treatment of carriers and freed up \$48.3 million of premium tax revenue which had been held in the protest fund.⁵ In this case, at least, a tax that measures up favorably with respect to criteria of efficiency, equity, and stability may turn out to be a good tax promoting economic development through state-based insurance carriers.

Notes

¹Survey of Current Business, (July 1983), p. 83; (July 1987), p. 61.

²Oklahoma Employment Security Commission, *Handbook of Employment Statistics*, 1986 Vol. II, and *Oklahoma Labor Market*, (April 1988).

³H.B. 1176. *Oklahoma Session Laws '87*, p. 579.

⁴U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Expenditure Survey: Interview Survey, 1982-83*, Bulletin 2246, (February 1986), pp. 15-17.

⁵*Oklahoma Legislative Reporter*, (June 24, 1988), p. 12.

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International Trade Development in Oklahoma: A Synopsis of the Problem and a Review of the Literature

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Introduction

THE IMPORTANCE OF Oklahoma economic development as an issue of concern to business and political leaders is perhaps suitably indicated by the large volume of economic development studies, analyses and recommendations generated. By one specific count, made by Professor Olson in a recent bibliographic report, over 90 such papers are available on the Oklahoma economy, with the vast majority being written in the mid-1980s.¹

The purpose of this article is to supplement the Olson Report with an evaluation of studies and recommendations relating to the increasing globalization of markets and trends affecting Oklahoma's economic development and the state's reaction to these problems and opportunities. The concept of "international trade development" is widely used to describe efforts to increase the state-based activity of exporting goods and services, overseas sourcing and production of components and final goods, technology licensing and other forms of international business as well as foreign investment in the state, international aspects of tourism and the more general cultural interactions be-

tween Oklahoma residents and foreign citizens. The main emphasis here, however, is on export promotion.

Oklahoma International Trade Trends

Oklahoma is already, and historically has been, involved in international business. During 1984, Oklahoma manufacturers sold goods to foreign buyers worth an estimated \$1.2 billion in direct international sales. Another \$1.1 billion of manufactured shipments was attributed to export sales of out-of-state firms yielding a total of \$2.3 billion of export-related output. In total, 9.3 percent of the value of Oklahoma manufacturers' shipments were export-related compared with 11.9 percent for the U.S. as a whole.

At a more disaggregated level, five of nineteen aggregated industries accounted for 80 percent of Oklahoma's total direct exports of manufactures—(in descending order of importance) nonelectrical machinery including oil and gas field equipment; food and kindred products; transportation equipment; fabricated metal products; and petroleum and coal products.

Oklahoma's share of national agricultural exports fell to \$354 million

in FY 1986 from \$470 million in 1985 and a peak of \$970 million in 1980. Wheat and wheat products accounted for \$245 million of Oklahoma's share of commodity exports based on relative production levels. The actual quantities of commodities physically exported from individual states are not estimated by the U.S. Department of Agriculture.

In brief, at least the larger Oklahoma firms in the five export-oriented sectors would appear to have international exporting experience through current sales or activity prior to the sharp increase in the value of the dollar and the drastic fall in sales to Latin America as a result of their debt accumulation. Nevertheless, the typical U.S. pattern of nonexporting by small and medium-sized firms with the potential to do so can be projected to Oklahoma. It is the attempt to get the production of these firms into international markets for the profits and employment that may be generated that forms the goal of international trade development and the recommendations for action that follow.

Scope of Literature Review

In many ways, international trade

development cannot be separated from the general field of economic development in a local, regional and/or national context. Indeed, it is generally necessary that individuals, firms and communities "progress" along a track of learning and growth, technology improvement and quality adjustment, added cultural sensitivity and awareness, and increasing sophistication with business methods and communications before international dealings become an important and natural part of everyday activity. Nevertheless, a test of "directness of international impact" can be used to reasonably identify items of particular importance to economic development through international trade.

The few studies that have specifically addressed Oklahomans' willingness and ability to participate in economic development through expanding international activity are described below. The collection of recommendations summarized are a synthesis and summarization of these individual reports and isolated references to similar recommendations in the general economic development literature.

The first detailed committee consideration of international trade in the recent period was a Task Force Report for the Oklahoma Council of Science and Technology.² Results of a session-long study by a joint committee of the Oklahoma legislature were summarized in a report with recommendations in early 1987 in conjunction with a second annual day of international trade programs presented in the state capitol.³

Detailed study conclusions and recommendations specifically prepared for the City of Tulsa under a contract with Arthur D. Little, Inc. with financial support from various Tulsa sponsors and the Economic Development Administration were presented in a series of meetings in Tulsa and in written form in early 1987.⁴ Still more recently, an additional International Development Task Force was created as part of the comprehensive, statewide involvement of citizens through 17 such committees to formulate an economic development ac-

tion plan by Oklahoma Futures.⁵

Finally, region-wide international business efforts have been thoroughly reviewed and additional recommendations generated by the staff and contracted researchers for the Southern Growth Policies Board in a series of papers published as the *Southern International Perspectives* (SIP).

The International Trade Development Recommendations

The goal of export promotion and reverse investment activities of state and federal governments is to increase the level of economic well-being, a goal seen as almost identical to job creation. In fact, in a recently approved list of thirteen goals, Oklahoma Futures' Five-year Economic Development Goals contains the following:

Goal #10: Increase exports of manufactured goods as a percent of total Oklahoma manufactured shipments to the national average (in 1984 -6.7 percent); and Raise the proportion of Oklahoma agricultural exports to 2 percent of total U.S. agricultural exports.

Goal #13: Raise Oklahoma's share of foreign investment in new or expanded facilities to a rate exceeding Oklahoma's share of national population; and Increase Oklahoma's share of foreign firm new employment as a result of foreign firm investment.

To achieve goals such as these, the various advisory boards recommended a substantial list of actions for various public and private sector organizations. In the summary to follow, the recommendations are collected into major categories and stated in general terms. No attempt is made to include the more specific details or exact wording of the individual statements.

Export Awareness and Technical Assistance

General Recommendation: Educators and federal and state international trade specialists must develop an awareness in the business community of both the national need for, and the potential profitability of, international trade. Furthermore, information and advice on the specific techniques of international trade must be provided so that small and medium-sized firms can effectively manage their foreign trade transactions.

Any international marketing text can provide a long list of reasons why firms should consider exporting and/or other forms of international business. In almost all cases, these reasons boil down to increased profits for the firm and, from a national perspective, added employment and a smaller merchandise trade balance.⁶ Motivations may be proactive—such as desire to exploit unique products, new technology, economies of scale, etc.—or more reactive—such as a need to defend against foreign competitive pressures, overproduction, excess capacity, and so forth.⁷

Of course, the large U.S. multinational firms are, and have been for some time, on the leading edge of all forms of international business. It is the nation's small and medium-sized companies (SMCs) that are charged with disinterest and lack of skill in foreign trade. In Oklahoma, for example, it has been estimated that perhaps only one-half of the firms with products appropriate for overseas markets are currently exporting and one out of four firms that are not exporting now think they could develop foreign markets.⁸

To the extent that the complexities of doing business abroad and the differences between exporting and domestic selling are being correctly perceived as major problems capable of firm-level solutions, targeted awareness programs and training seminars for international trade specialists in progressive, regional manufacturing and tradeable services firms should help overcome deficiencies that often

lead to inadequate consideration of international business as an alternative business growth strategy. Determining the exact information needs of exporters at various stages of the internationalization process is the subject of extensive literature in international marketing.⁹

Targeting and Market Research

General Recommendation:

Decision-making by producing firms and the public and private sector support organizations can be improved with applied research identifying firms, markets (countries) and products with the greatest potential for new or expanded exporting.

According to a current international text, "Even though most managers recognize the need for domestic market research, the single most important cause for failure in the international marketing place is insufficient preparation and information."¹⁰ Doing this type of research is different since international marketing does involve (1) more factors to consider with each additional country market, (2) new parameters of foreign exchange, alternate business practices, tariffs, quotas, etc., (3) an unfamiliar and complex environment of different cultures, languages, tastes and political systems, and (4) many new varieties of competition in products, costs, qualities, technology, and so forth. Many SMCs do not have the time or personnel to devote to this process, at least initially in the internationalization process.

This general conclusion was further substantiated in the Tulsa Report with the conclusion that an export promotion program should concentrate on "...the needs most often expressed by companies in Tulsa:

- Identifying market opportunities
- Developing a market entry strategy
- Building an overseas distribution network."¹¹

Specific one-on-one counseling to advise firms on the filtering, organization, evaluation and use of the huge

quantities of raw data available is the most frequently given recommendation to assist the international marketing of SMCs. Providing specialists in formulating international marketing business plans to work with the assigned personnel of the firm and the trade specialists of the regional International Trade Administration offices through the early stages of acquiring skill and experience in exporting is one frequently recommended method of direct market entry assistance for the new-to-export and new-to-market local firms.

Database Development

General Recommendation: *The generation and dissemination of knowledge and information required for modern international business transactions and promotion efforts would significantly benefit from the development of modern electronic databases related to marketing research, business practices and trade restrictions, foreign contact and evaluation information, local sources of counseling and assistance, trade opportunities and leads, etc.*

The importance of detailed, accurate and timely information for international trade development is indicated by sections of the "Omnibus Trade and Competitiveness Act of 1988" calling for the establishment of a *National Trade Data Bank* consisting of an export promotion data system designed to be useful to business and an international economic data system containing information useful to policymakers and analysts concerned with international economics. The system would reportedly be an extension of the current computerized system developed for the ITA district offices called "CIMS."

On the local level the recommendations for database development include:

- (1) a database of exporting firms, trade service organizations and statistical series of products sold by geographic market for targeting assistance efforts and educational services.

(2) an electronic bulletin board type of system for sorting and disseminating trade opportunity leads, bid opportunities for the multinational and international development organizations, and information exchanges among private companies in international commerce willing to "piggyback" new products on their existing distribution channels.

(3) a database of state personnel including foreign language interpreters and cultural specialists, executives with overseas management experience, foreign exchange scholars and others with extensive travel experience and a directory of trade service specialists.

(4) a database of foreign nationals who have graduated from the state's colleges and universities, or otherwise have become familiar with Oklahoma and its products, a network of "Oklahoma Ambassadors."

Given the computerization of most business analyses and the international trade shipping, export certification and documentation processes, it is inevitable that individual business will be linked with entire networks of local, national, and international database services. Oklahoma—through the joint efforts of Oklahoma State University, the University of Oklahoma and the Oklahoma Department of Commerce—is developing a statewide system of electronic information generation and dissemination called "ORIGINS" (for Oklahoma Resources Integrated General Information Network System) that can provide such services for all aspects of international trade development.

Export Financing

General Recommendation: *The state government should provide, or guarantee private bank lending of, export financing for pre-export and foreign trade credit needs of the small and medium-sized exporters who cannot obtain such funding on competitive terms.*

As noted in the Tulsa International Trade Initiative Report, "...one of the principal constraints faced by exporters is difficulty in securing pre-export

working capital. Large international banks do not find small export transactions profitable; smaller banks do not have the expertise to evaluate international transactions and are hesitant to enter into export deals."¹² When complex international financial instruments, such as the many forms and variations of letters of credit, and the political and commercial risks of export contracts are considered, it also becomes very difficult for the SMCs to offer competitive financing terms to the foreign importer to match offers from firms of other exporting countries.

In response to these perceived needs, 15 state governments had obtained authority to operate export financing programs by January 1, 1985 and perhaps 30 others were exploring the options.¹³

Locally, specific legislative actions to provide export financing assistance have centered around the formation of an "Oklahoma World Trade Development Authority (WTDA)." [House Bill 2004, 2nd Session of the 41st Legislature, 1988] Its purposes would include: finance counseling, procuring insurance guaranteeing funding against political or commercial loss, and providing guaranteed funding for any eligible export loan through participating banking organizations. Authority for the WTDA to issue bonds continues under debate while discussions are being held on administrative guidelines and specific procedures to be followed. A group of bank officers and financial consultants has been convened by the Oklahoma Department of Commerce to formulate recommendations.

Export Trading Company Sponsorship

General Recommendation. State governments need to establish export trading companies (ETCs) as quasi-governmental agencies to facilitate, or fully conduct as title-holding owners, the international trade of small and medium-sized companies.

United States' fascination with export trading companies apparently stems from the success of the large

Japanese trading companies—the sogo shosha. Other countries have adopted similar organizations to foster internationalization of their economies—especially, Korea, Taiwan, Thailand and Turkey. Europeans have the modern-day derivatives of the original trading companies authorized to conduct (and monopolize) business with their colonies.

American internationalization followed a quite different track of worldwide diversification of products, geographic markets and business functions with large manufacturing concerns attaining a scale that dictated the now familiar patterns of the multinational corporation operating in a free enterprise business framework. Nevertheless, as a means to try to ease the problem of increasing trade deficits, the U.S. Congress passed the Export Trading Company (ETC) Act into law in 1982 with an intent to encourage development of large trading firms with adequate bank funding and other services to provide one-step exporting services for the SMCs and otherwise mimic the performance of the envied ETCs of the rest of the world.

Within Oklahoma, the most detailed call for creation of a state-supported ETC was included in the Tulsa recommendations. In this report the ETC would be a "full-service, special-purpose trading company" to serve the SMCs. It would involve:

- identifying potential clients and products to represent,
- screening companies for high probability of success,
- test marketing and overseas sales trips,
- negotiating exclusive marketing agreements for several years, and
- designing and implementing an appropriate marketing plan for each client.

As originally perceived, the concept of an ETC was as a company, either publicly or privately owned, to assume the risks associated with international trade by taking title to products of the

SMCs and handling export operations.

However, only one public ETC had been formed, a unit in North Dakota specializing in agricultural products to Central America. Indeed, one must be skeptical of public sector management of ETCs given the history of failure of the bank ETCs (the Sears World Trading Company, for example), and the lack of an historical pattern of close cooperation of American business and local government in management tasks.

A more promising approach might be to consider whether "reasonable" special subsidies, tax holidays, etc. might encourage private sector ETC formation. This tack was recently considered in the Oklahoma Legislature as a local ETC incentive.

Foreign Presence for Market Development

General Recommendation: An "almost necessary" condition for developing foreign markets and reverse investment sources is to establish state offices near the foreign markets being developed. These efforts must be supplemented with adequate trade missions, trade show participation and the exchange of delegations.

Because of the frequently great geographic, and often cultural and psychological, distances that separate buyers and sellers in international marketing, new and effective forms of communication must often be learned by new American exporters. Communications theory emphasizes the process of establishing a "commonness of thought" between parties involved with both verbal and nonverbal forms of expression. The process can be inhibiting to trade development when different languages, cultures and forms of business practice are involved.

In export development, the primary forms of international communication are business and trade journals, direct mail, trade fairs and missions, and personal selling.¹⁴ Each channel offers alternative benefits and costs for establishing the contacts for locating potential buyers and most channels

are supported with U.S. Department of Commerce and U.S. Department of Agriculture contact programs and other promotional activities.

At the state level, local offices of these federal departments help publicize these services and assist firms in their utilization. State offices increasingly supplement these activities with local export promotion and assistance programs.

The core of the state-sponsored foreign presence for international trade and reverse investment promotion is a state's foreign office. As of 1987,

...at least 30 states have foreign offices, for a total of 67 offices in 15 different countries. Japan is the most popular location with 23 states represented; Belgium is second with 10 state offices; Germany has 9, England 6, Hong Kong and Canada each have 4 and Mexico and Korea have 2 each. In addition, Brazil, China, India, Italy, Norway, Sweden and Switzerland have 1 state office each. The average spent annually on a foreign office is \$177,000 and the average staff size is 2.7 persons.¹⁵

Oklahoma established foreign offices and/or contact assistance in Japan, England, Hong Kong, Singapore and India. The latter was the first state office to be established in India. Private firms have provided a major source of funds for these offices.

At this point, very little objective data can be cited to ascertain the effectiveness of the investment in foreign state offices or the trade missions and trade fairs that frequently utilize the federal or individual state's foreign physical presence. Research does lead one to anticipate, however, that firms utilizing these forms of services have the following export marketing behavior characteristics:

- more systematic and thorough preparation for off-shore market involvement,

- more clearly expressed and focussed perception of market entry decision and problem factors,
- greater clarity in their direction of marketing effort (and resultant events) following market entry,
- a more proactive approach in their marketing and export marketing management, and
- a greater awareness and use of government export marketing services...¹⁶

Thus, it is not difficult to understand the attitude of experimentation present in the recommendations to continue the financial support of foreign state offices and actively pursue trade and investment missions to establish the important initial contacts that can be developed into long-term buyer-seller or investor relationships.

Coordination and Planning of the Assistance Network

General Recommendation: *The efficiency and effectiveness of resources devoted to export promotion and reverse investment attraction could be significantly increased with coordination and joint planning among the many trade associations and public sector assistance organizations.*

The international trade development network consists of numerous individuals, firms and organizations in both the private and public sectors which facilitate international business decision-making and the ultimate transactions of exchange.

Within the public sector, assistance in exporting manufactured products and services is provided by a joint federal-state partnership of international trade specialists known as Oklahoma International Export Services (OIES) with offices in Oklahoma City and Tulsa. A similar range of specialized services for agribusinesses is made available through the Oklahoma Department of Agriculture. Other government agencies, trade associations, chambers of commerce and the port authorities and foreign trade zones also provide support ser-

vices, information and infrastructure for international activity. Universities provide business development assistance through O.S.U.'s Center for International Trade Development, a network of small business development centers supported by Oklahoma Small Business Administration, and individualized institutional arrangements for general economic development assistance and applied research services. And, private sector council is solicited through the District Export Council for exporting and the Governor's International Advisory Team for reverse investment.¹⁷

Coordination of missions and activities of the various public agencies involved in international trade development already occurs to some degree; however, calls for additional cooperation and identification of unique services are frequently made. The most recent task force report, for example, called for legislative action to "establish a communications hub..." and to "establish an overview committee to review actions" of the Department of Commerce, Department of Agriculture, O.S.U.'s international trade program and other relevant university programs.

Recommendations of a similar nature are implied in the strategic guidelines for implementing the Arthur D. Little, Inc. trade development program for Tulsa:

- (1) Focus on selected markets offering significant potential for a broad range of Tulsa companies....
- (2) Integrate trade development into a broader economic development strategy and coordinate activities of key players and institutions, and
- (3) Provide effective leadership.

Agricultural Trade Development

General Recommendation: *Special programs and resource commitments should be dedicated to product development and marketing of high value-added, processed agricultural products and the technology and*

associated equipment and services of the agricultural sector.

Agricultural production and farm incomes in Oklahoma are dominated by wheat and cattle and their related products.

Wheat production and trade patterns have varied considerably over recent periods. Seven producers—China, USSR, EC-12, U.S., India, Canada and Australia—routinely produce over three-fourths of the world supply. Export trade is similarly concentrated with about 80 percent of world trade supplied by the U.S., Canada, EC (esp. France), Australia and Argentina. Furthermore, four of the five top importers in 1985 attempted to meet world market complications with state trading purchase practices. Obviously, market factors are intricately mixed with managed international trade and domestic support programs. Given huge surplus stocks, an inelastic income elasticity for consumer demand and almost universal self-sufficiency objectives, prospects for significant additional sustained foreign sales of U.S. wheat are not encouraging.¹⁸

The world's top beef producers for the past two decades have been the U.S., the USSR, Argentina, Brazil and France. The top exporters, however, have not been as stable. While Australia and New Zealand continue in this top group, the traditional exporters of Argentina, Uruguay and Ireland have been displaced by Brazil, France and Germany. The U.S. and USSR are traditionally large beef importers as well as large producers. The extent of domestic and export subsidy programs varies greatly among countries with substantial quota protection afforded producers in Japan, Korea and Taiwan. Negotiating conflicts will inevitably arise among those with no subsidies, the high-subsidy countries and numerous developing countries with apparent comparative advantages in cattle production. Trade prospects must be considered brighter for cattle than wheat due to world-wide market growth for beef with rising incomes and potential for sales of breeding stock and genetic materials.¹⁹

The future prospects for these and other agricultural commodities are undoubtedly linked to on-going negotiations concerning both the rules for international trade in agriculture and the nature of countries' domestic agricultural support systems. One must, however, accept a high probability that the long-run downward trend of decreasing real prices for agricultural commodities will continue and look to technological advances, new value-added products and market development for increasing incomes in the agricultural sector.

With these trends in mind, the Oklahoma Department of Agriculture has adopted a series of international market development objectives to support the agribusiness sector with numerous forms of financial and technical export assistance and an active program of market development through representation of processed foods and other agricultural products in international trade shows, trade lead generation and dissemination and a close association with applied research activities of O.S.U.'s Agricultural Experiment Station.

Long-Run Human Resource Development: International Education

General Recommendation: *Education of "internationalists," beginning with extensive foreign language training in grade schools, and following with a progressive, internationally-oriented curricula through college level instruction in world economics, international relations, cross-cultural sensitivity and international business is required to gain the attitudes and skills needed to fully integrate Oklahoma's economy into the global economy.*

Few would seriously doubt the commonly accepted belief that our apparent indifference to export opportunities is related to a lack of international education in our schools and colleges, especially in the nation's colleges of business administration.

Reasons for this failure have been presented in many studies. One summary illustrates the analysis by stating

a basis for the lack of international education in terms of five widely held misconceptions of American society:

- (1) "America is an Island"
- (2) "Trade is for Multinationals"
- (3) "International Business is a Separate Field of Study"
- (4) "Ride out the (trade deficit) Storm"
- (5) "Language Studies are for Linguists"²⁰

A more positive case for international education in today's global market environment was presented to the state's comprehensive universities by Mr. Sven Groennings in an insightful quotation:

The globalization of the American economy is the second wave pushing internationalization, following global political-military concerns, and it appears to be the larger wave. It is the major reason why attention in international education is shifting from graduate to undergraduate education, and why internationalization has become important not only at institutions educating for international expertise but at higher educations generally.²¹

The essence of the recommendations to the administrators of our nation's colleges and universities is also quite broad and unmistakable:

Given the increased internationalization of the economy, colleges and universities are strongly encouraged to increase their teaching of international studies, including foreign languages and cultures... Given the growing interdependence of the American and world economies, it is crucial that U.S. students and workers become more knowledgeable about other countries and cultures... Colleges and

universities must significantly strengthen their international studies courses—language, cultural, political and economic—and make them readily available to U.S. business executives as part of their lifelong learning programs. [Groennings' quotation from *An Action Report for American Competitiveness*.]

Oklahoma universities have generally begun to include elements of this international education in their regular degree offerings and all will inevitably do so. Accreditation standards, peer pressures and the evolution of education at the leading institutions that supply faculty will ensure at least gradual improvements in the quality and breadth of these offerings. Hopefully, however, regional leaders in the internationalization effort will emerge to help foster the integration of international education, international business development and the general university contributions to economic development to provide Oklahoma the expertise in these fields so desperately needed for diversification consistent with the trends of the global economy.

Policy Research and Advocacy by the State Legislature

General Recommendation: Regional international trade impacts and concerns are sufficiently important to local economic development that state legislators need to identify international trade and investment impacts of state and federal policies and maintain closer liaison with congressional delegations to provide input to national commercial (and, as appropriate, foreign) policy formulation.

In the terminology of researchers with the Southern Governors Growth Board, first-generation trade development strategies consist of direct export and reverse investment assistance aimed at individual businesses such as export counseling, marketing research, export financing, trade missions, etc. "Second-generation strategies, on the other hand, are not so much an ex-

tension of existing technical assistance programs as they are investments in the medium- to long-term future competitive position of the state." They are frequently investments aimed at the state government itself.²² Such strategies are comprehensive and involve a broad spectrum of government agencies. They reflect an understanding of the need for process-oriented approaches and interagency coordination with local, regional, national and even international groups.

The specific topical categories identified as second-generation strategies for state government improvement include:

- state participation in federal foreign and trade policy debates,
- better information gathering and dissemination,
- the development of a trade policy "infrastructure" for the governor and the legislature, and
- the development of "higher order" cooperative programs integrating international trade and general economic development.

A case can be made that state governments can no longer ignore international matters as they impact state goals and state policy effectiveness. States clearly cannot make U.S. foreign policy, but local leadership can become informed about, and sensitive to, local impacts and opportunities and can be certain that these interpretations are understood by the federal congressional delegations and cabinet-level departments. When appropriate, regional associations of states or industries can help facilitate these trade development processes.

Reverse Investment

General Recommendation: Oklahoma and her major metropolitan areas should encourage foreign direct investment in Oklahoma as a source of new technology and employment. Promotion efforts to encourage new plants and joint ventures should be concentrated in targeted countries, stressing regional comparative advantages and business sectors and services

identified in detailed analyses.

From a national point of view, it can be argued whether or not unrestricted direct investment with the ability to manage and control the company on the part of foreign owners is the best policy to pursue. Some argue for as much freedom as possible while others call for various degrees of restriction, or at least reporting and taxation, depending on the type of investment, e.g., farmland and forests, firms with defense contracts, the extent of industrial R&D expenditures, etc.

From a state point of view, however, few people supportive of general economic development question the benefits of a particular state acquiring a new plant, joint venture, acquisition or merger on the part of foreign owners. Given that foreign owners of U.S. dollars are going to invest directly in plant and equipment rather than stocks, bonds or treasury bills, it's better to have the investment (and jobs) in Oklahoma than elsewhere, so the reasoning goes.

International Tourism

General Recommendation: The Oklahoma Legislature should consider adopting a comprehensive tourism policy including encouragement of foreign visitors.

Tourism, like agriculture, manufacturing and energy production, is most often considered a "basic" industry serving significant clientele residing outside the state and thereby substantially adding to the state's income and employment via "multiplier effects" of economic development.

The legislative report noted specifically the trend in other states towards a state tourism policy "...which takes into consideration the need for public/private cooperation and long-range planning for tourism development."²³ The tourist industry does consist of many small service providers and local community elected officials who lack the individual profit potential to justify international tourism promotion and the marketing skills to fashion cooperative advertising campaigns. A concept of a cooperative

forum for education and training and a joint effort at identifying potential foreign markets and conducting marketing campaigns is worthy of a feasibility study.

Summary and Conclusions

Formal economic development programs of individual states (and occasionally individual cities) are rapidly growing and evolving tools of state policies. Activities that centered on attraction of business to a given location in the early 1970s have now been supplemented with efforts to create, expand and retain local businesses. In a recent book describing recent state policies, the following emerging state economic development roles were highlighted:

- (1) ...economic development is conceived as a process that occurs predominately in the private sector, but is affected ...by a wide range of state actions...
- (2) In the new role, the state employs an active strategy to improve its competitiveness by confronting and taking advantage of prevailing economic forces.
- (3) ...a fundamentally different set of institutional arrangements ...is used to accommodate the new strategic orientation, institutions that are more versatile and flexible in permitting the state to anticipate, specialize, experiment, integrate, evaluate, and adjust in dealing with new and changing economic forces.²⁴

Local area programs for international trade development are a particular example of efforts devoted to this emerging and expanding role for state economic development policy.

Oklahoma does have an active program of international trade development involving a broad base of both private and public sector participants, several uniquely efficient features²⁵ and an excellent base for additional

beneficial services in the traditional service areas of export promotion and marketing, export education and training, and export financing. As with most public sector decisions, future potential and success is limited only by the public commitment of resources to the mission and efficient management and evaluation of what is already provided.

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